

FINANCIAL STATEMENTS
CITY OF HOUGHTON, MICHIGAN
June 10, 2005

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

| | | | | |
|---|-----------------------------------|---|--|--------------------|
| Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other | | Local Government Name City of Houghton | | County Houghton |
| Audit Date June 30, 2005 | Opinion Date December 19, 2005 | Date Accountant Report Submitted to State: December 22, 2005 | | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting **RECEIVED**
Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury. DEPT. OF TREASURY

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

DEC 28 2005

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations **LOCAL AUDIT & FINANCE DIV**

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

| | Enclosed | To Be Forwarded | Not Required |
|---|----------|-----------------|--------------|
| The letter of comments and recommendations. | X | | |
| Reports on individual federal financial assistance programs (program audits). | | | X |
| Single Audit Reports (ASLGU). | | | X |

| | | | |
|--|------------------|-------------|--------------|
| Certified Public Accountant (Firm Name) Joseph M. Daavettila, P.C., CPA | | | |
| Street Address 417 Shelden Avenue | City Houghton | State MI | ZIP 49931 |
| Accountant Signature Joseph M. Daavettila CPA | | Date | |

CONTENTS

| | Page |
|--|------|
| Independent Auditor's Report | 6 |
| Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards | 8 |
| Management's Discussion and Analysis | 10 |
| <u>Basic Financial Statements</u> | |
| Government-wide Financial Statements: | |
| Statement of Net Assets | 17 |
| Statement of Activities | 18 |
| Fund Financial Statements: | |
| Government Funds: | |
| Balance Sheet | 19 |
| Reconciliation of the Governmental Funds Balance Sheet to Statement of Net Assets | 20 |
| Statement of Revenues, Expenditures, and Changes in Fund Balance | 21 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balance of Governmental Funds to the Statement of Activities | 22 |
| Proprietary Funds: | |
| Statement of Net Assets | 23 |
| Statement of Revenues, Expenses and Changes in Net Assets | 25 |
| Statement of Cash Flows | 26 |
| Fiduciary Fund Types: | |
| Statement of Net Assets | 28 |
| Statement of Changes in Net Assets | 29 |
| Discretely Presented Component Units: | |
| Statement of Net Assets | 30 |
| Statement of Activities | 31 |
| Notes to Financial Statements | 32 |
| <u>Required Supplementary Information</u> | |
| General Fund - Budgetary Comparison Schedule | 64 |
| Major Street and Trunkline Maintenance Fund - Budgetary Comparison Schedule | 65 |
| Local Street Fund - Budgetary Comparison Schedule | 66 |
| Revolving Fund - Budgetary Comparison Schedule | 67 |
| Note to Required Supplementary Information - Budgetary Information | 68 |
| <u>Additional Information</u> | |
| <u>Financial Statements of Individual Funds</u> | |
| Governmental Funds: | |
| General Fund: | |
| Balance Sheets | 71 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 72 |
| Special Revenue Funds: | |
| Combining Balance Sheets | 73 |
| Combining Statements of Revenues, Expenditures, and Changes in Fund Balance | 74 |

CONTENTS (CONTINUED)

Financial Statements of Individual Funds (Continued)

| | |
|---|-----|
| Major Street and Trunkline Maintenance Fund: | |
| Balance Sheets | 75 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 76 |
| Local Street Fund: | |
| Balance Sheets | 77 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 78 |
| Revolving Fund: | |
| Balance Sheets | 79 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 80 |
| Capital Projects Fund - Public Improvement Fund: | |
| Balance Sheets | 81 |
| Analyses of Changes in Fund Balance | 82 |
| Debt Service Fund - | |
| 1997 Building Authority Debt Retirement Fund: | |
| Balance Sheets | 83 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance | 84 |
| Proprietary Fund Types: | |
| Water Supply Fund: | |
| Balance Sheets | 85 |
| Statements of Revenues and Expenses | 86 |
| Analyses of Changes in Fund Equity | 87 |
| Statements of Cash Flows | 88 |
| Sewage Disposal System Fund: | |
| Balance Sheets | 89 |
| Statements of Revenues and Expenses | 90 |
| Analyses of Changes in Fund Equity | 91 |
| Statements of Cash Flows | 92 |
| Parking System Fund: | |
| Balance Sheets | 93 |
| Statements of Revenues and Expenses | 94 |
| Analyses of Changes in Fund Equity | 95 |
| Statements of Cash Flows | 96 |
| Transit Fund: | |
| Balance Sheets | 97 |
| Statements of Revenues and Expenses | 98 |
| Analyses of Changes in Fund Equity | 99 |
| Statements of Cash Flows | 100 |
| Equipment Fund: | |
| Balance Sheets | 101 |
| Statements of Revenues and Expenses | 102 |
| Analyses of Changes in Fund Equity | 103 |
| Statements of Cash Flows | 104 |
| Fiduciary Fund Types: | |
| Employee Retirement Fund: | |
| Balance Sheets | 105 |
| Statements of Revenues and Expenses | 106 |
| Statements of Changes in Fund Balance | 107 |

CONTENTS (CONTINUED)

Financial Statements of Individual Funds (Continued)

| | |
|---|-----|
| Employee Benefit Fund: | |
| Balance Sheets | 108 |
| Statements of Revenues and Expenses | 109 |
| Analyses of Changes in Retained Earnings | 110 |
| Statements of Cash Flows | 111 |
| Agency Fund - Tax Collection Fund | |
| Statements of Changes in Assets and Liabilities | 112 |

Groups of Accounts

| | |
|--|-----|
| General Fixed Assets Group of Accounts - | |
| Statements of General Fixed Assets | 114 |
| General Long-Term Debt Group of Accounts - | |
| Statements of General Long-Term Debt | 115 |

Discretely Presented Component Units

| | |
|--|-----|
| Downtown Development Authority: | |
| Combined Balance Sheets | 117 |
| Combined Statements of Revenues, Expenditures, and Changes in Fund Balance | 118 |
| General Fund: | |
| Balance Sheets | 119 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 120 |
| Debt Service Funds: | |
| Combining Balance Sheets | 121 |
| Combining Statements of Revenues, Expenditures, and Fund Equity | 122 |
| Statements of General Long-Term Debt | 123 |
| Tax Increment Finance Authority: | |
| Combined Balance Sheets | 124 |
| Combined Statements of Revenues, Expenditures, and Changes in Fund Balance | 125 |
| General Fund: | |
| Balance Sheets | 126 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 127 |
| Debt Service Funds: | |
| Combining Balance Sheets | 128 |
| Combining Statements of Revenues, Expenditures, and Fund Equity | 129 |
| Statements of General Long-Term Debt | 130 |
| Brownfield Redevelopment Authority: | |
| Combined Balance Sheets | 131 |
| General Fund: | |
| Balance Sheets | 132 |
| Statements of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual | 133 |
| Statements of General Long-Term Debt | 134 |

CONTENTS (CONTINUED)

Other Financial Information

General Fund -

Statements of Revenues, Expenditures, and Fund Balance

136

Major Street and Trunkline Maintenance Fund -

Schedules of Expenditures and Reimbursements for State
Trunkline Maintenance

139

Transit Fund:

Schedule of Operating Revenues

140

Schedule of Operating Expenses

141

Schedule of Non-Operating Revenues and Expenses

142

Mileage Schedule

143

Schedule of Net Eligible Cost Computations of General
Operations

144

Management Letter

145

JOSEPH M. DAAVETILA, P.C.

Certified Public Accountant

417 Shelden Avenue, P.O. Box 488

Houghton, Michigan 49931

December 19, 2005

City Council
City of Houghton
Michigan

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each fund of the CITY OF HOUGHTON, MICHIGAN as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, and each fund of the CITY OF HOUGHTON, MICHIGAN as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated December 19, 2005 on our consideration of the CITY OF HOUGHTON, MICHIGAN'S internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 10 through 16 and 64 through 68 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the CITY OF HOUGHTON, MICHIGAN's basic financial statements. The introductory section, individual fund financial statements, and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The introductory section and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Joseph M. Doretti PC

Certified Public Accountant

JOSEPH M. DAAVETILA, P.C.
Certified Public Accountant
417 Sheldon Avenue, P.O. Box 488
Houghton, Michigan 49931

December 19, 2005

City Council
City of Houghton
Michigan

**REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

We have audited the financial statements of the CITY OF HOUGHTON, MICHIGAN as of and for the year ended June 30, 2005, and have issued our report thereon dated December 19, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the CITY OF HOUGHTON, MICHIGAN'S financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that we have reported to management of the CITY OF HOUGHTON, MICHIGAN in a separate letter dated December 19, 2005.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the CITY OF HOUGHTON, MICHIGAN'S internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and

its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to management of the CITY OF HOUGHTON, MICHIGAN in a separate letter dated December 19, 2005.

This report is intended for the information and the use of the City Council, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Joseph M. Daavittala PC

Certified Public Accountant

CITY OF HOUGHTON, MICHIGAN
MANAGEMENT'S DISCUSSION AND ANALYSIS

Year ended June 30, 2005
(Unaudited)

Our discussion and analysis of the City of Houghton's financial performance provides an overview of the City's financial activities for the year ended June 30, 2005. Please read this report in conjunction with the City's financial statements which begin on Page 17.

USING THIS ANNUAL REPORT

This Annual Report consists of a series of financial statements. The Statement of Net Assets and Statement of Activities (on pages 17-18) provide information about the activities of the City as a whole and present a long-term view of the City's finances. Fund financial statements start on Page 19. For governmental activities these statements tell how these activities were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operation in more detail than the government-wide statements by providing information about the City's individual funds. The remaining statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a Whole

The Statement of Net Assets and the Statement of Activities

Our analysis of the City as a whole begins on Page 12. One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of this year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about the activities in a way that helps answer these questions. These statements include all assets and liabilities using the accrual basis of accounting which is similar to the accounting used by most private-sector companies. All of the current year's revenue and expenses are taken into account regardless of when the cash is received or paid.

These two statements report the City's net assets and changes in them. You can think of the City's net assets - the difference between assets and liabilities - as one way to measure the City's financial health or financial position. Over time, increases or decreases in the City's net assets are one indicator of whether its financial health is improving or deteriorating. You will need to consider other nonfinancial factors, however, such as changes in the City's property tax base and the condition of the City's roads to assess the overall health of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into three kinds of activities:

1. Governmental Activities - Most of the City's basic services are reported here including police, fire, general administration, streets, parks and neighborhoods. Sales taxes, franchise fees, fines, state and federal grants finance most of these activities.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

2. Business-type Activities - The City charges a fee to customers to help cover all or most of the cost of certain services provided. The City's water, sewer, transit and parking systems are reported here.
3. Component Units - The City includes three separate legal entities in its report - The Downtown Development Authority, the Tax Increment Finance Authority, and the Brownfield Redevelopment Authority. Although legally separate, these "component units" are important because the City is financially accountable for them.

Reporting the City's Most Significant Funds

Fund Financial Statements

Our analysis of the City's major funds begins on Page 14. The Fund Financial Statements begin on Page 19 and provide detailed information about the most significant funds, not the City as a whole. Some Funds are required to be established by State law and by bond covenants; however, the City Council establishes many other funds to help control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants or other monies. The City's two kinds of funds, government and proprietary, use different accounting approaches:

1. Governmental Funds - Most of the City's basic services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at the end of the year which are available for spending. These funds are reported using the accounting method called modified accrual accounting which measures cash and other financial assets that can be easily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. The governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance City programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds in a reconciliation following the fund financial statements.
2. Proprietary Funds - When the City charges customers for the service it provides, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's enterprise funds are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows.

THE CITY AS TRUSTEE

The City is the trustee, or fiduciary, for its employees' pension plans. It is also responsible for other assets that-because of a trust arrangement-can be used only for the trust beneficiaries. All of the City's fiduciary activities are reported in separate Statements of Net Assets and Changes in Net Assets on Pages 28 and 29. We exclude these activities from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

THE CITY AS A WHOLE

Our analysis below focuses on the net assets (Table 1) and changes in net assets (Table 2) of the City's governmental and business-type activities. Overall for 2004-2005 the City had a slight decrease in total assets due to depreciation. For the same year, our total liabilities for the entire City were also down. That was due to the fact that we paid some of our debt down.

Table 1
City of Houghton's Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|--|------------------------------------|--------------------|-------------------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Current and other assets | \$2,337,318 | \$2,547,402 | \$ 801,559 | \$ 938,880 |
| Capital assets | <u>6,973,978</u> | <u>6,847,569</u> | <u>11,731,890</u> | <u>12,136,894</u> |
| Total assets | <u>\$9,311,296</u> | <u>\$9,394,971</u> | <u>\$12,533,449</u> | <u>\$13,075,774</u> |
| Long-term liabilities | \$ 926,916 | \$1,022,697 | \$ 5,002,000 | \$ 5,095,000 |
| Other liabilities | <u>420,205</u> | <u>585,607</u> | <u>277,643</u> | <u>290,140</u> |
| Total liabilities | <u>\$1,347,121</u> | <u>\$1,608,304</u> | <u>\$ 5,279,643</u> | <u>\$ 5,385,140</u> |
| Net assets: | | | | |
| Invested in capital assets, net of related debt | \$5,788,114 | \$5,711,571 | \$ 6,636,890 | \$ 6,972,894 |
| Restricted | - | - | 286,811 | 237,511 |
| Unrestricted | <u>2,176,061</u> | <u>2,075,096</u> | <u>330,105</u> | <u>480,229</u> |
| Total net assets | <u>\$7,964,175</u> | <u>\$7,786,667</u> | <u>\$ 7,253,806</u> | <u>\$ 7,690,634</u> |

Governmental Activities

This will be the first year where we can make a comparison of prior years using the accrual basis of accounting under GASB 34. To aid in the understanding of the Statement of Activities some additional explanation is given. Particular interest is the format that is significantly different than a typical statement of revenues and expenses and changes in fund balance. You will notice that expenses are listed in the first column with revenues from a particular program reported to the right. Result is a Net (Expense) Revenue. The reason for this kind of format is to highlight the relative financial burden of each of the functions of the City's taxpayers. It also identifies how much each function draws from the general revenues, or if it is self-financing, through fees and grants.

Overall this year there was a net gain of \$177,508 in government activities for 2004-2005 and a net loss of \$436,828 in the business type activities (Water, Sewer, Parking and Transit). This is primarily due to the depreciation expense in these funds. The General Fund had a net gain while revenue was down significantly and so were the expenses. Last year we received a large grant for waterfront property purchase from the DNR. Revenue from property tax showed an increase this year while our State Shared Revenues dropped. The expenses to the General Fund were very close to what we originally budgeted.

Total Primary
Government

| <u>2005</u> | <u>2004</u> |
|---------------------|---------------------|
| \$ 3,138,877 | \$ 3,486,282 |
| <u>18,705,868</u> | <u>18,984,463</u> |
| <u>\$21,844,745</u> | <u>\$22,470,745</u> |
| \$ 5,928,916 | \$ 6,117,697 |
| <u>697,848</u> | <u>875,747</u> |
| <u>\$ 6,626,764</u> | <u>\$ 6,993,444</u> |
| | |
| \$12,425,004 | \$12,684,465 |
| 286,811 | 237,511 |
| <u>2,506,166</u> | <u>2,555,325</u> |
| <u>\$15,217,981</u> | <u>\$15,477,301</u> |

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Table 2
City of Houghton's Changes in Net Assets

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|--|------------------------------------|--------------------|-------------------------------------|--------------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Revenues: | | | | |
| Program revenues: | | | | |
| Charges for services | \$ 786,700 | \$ 739,452 | \$2,474,257 | \$2,347,678 |
| Operating grants and contributions | 1,922,188 | 2,306,677 | 223,953 | 257,634 |
| Capital grants and contributions | 110,894 | 11,329 | 8,207 | 38,048 |
| General revenues: | | | | |
| Property taxes | 1,034,133 | 1,000,786 | - | - |
| Investment earnings | 64,162 | 24,996 | 15,818 | 10,235 |
| Gain on sale of assets | 29,188 | 297,549 | - | - |
| Miscellaneous | <u>13,986</u> | <u>8,183</u> | <u>-</u> | <u>-</u> |
| Total revenues | <u>\$3,961,251</u> | <u>\$4,388,972</u> | <u>\$2,722,235</u> | <u>\$2,653,595</u> |
| Expenses: | | | | |
| General government | \$1,262,261 | \$ 934,109 | \$ - | \$ - |
| Public safety | 484,405 | 493,313 | - | - |
| Public works | 1,566,604 | 1,781,695 | - | - |
| Community development | 96,915 | 58,259 | - | - |
| Recreation and parks | 314,264 | 378,197 | - | - |
| Interest on long-term debt | 40,164 | 44,550 | - | - |
| Water | - | - | 844,020 | 847,941 |
| Sewer | - | - | 1,676,718 | 1,712,121 |
| Parking | - | - | 300,461 | 232,012 |
| Transit | <u>-</u> | <u>-</u> | <u>476,864</u> | <u>526,844</u> |
| Total expenses | <u>\$3,764,613</u> | <u>\$3,690,123</u> | <u>\$3,298,063</u> | <u>\$3,318,918</u> |
| Increase (decrease) in net assets before transfers | \$ 196,638 | \$ 698,849 | (\$ 575,828) | (\$ 665,323) |
| Transfers | <u>(19,130)</u> | <u>(66,595)</u> | <u>139,000</u> | <u>86,000</u> |
| Increase in net assets | \$ 177,508 | \$ 632,254 | (\$ 436,828) | (\$ 579,323) |
| Net assets - beginning of year | <u>7,786,667</u> | <u>7,154,413</u> | <u>7,690,634</u> | <u>8,269,957</u> |
| Net assets - end of year | <u>\$7,964,175</u> | <u>\$7,786,667</u> | <u>\$7,253,806</u> | <u>\$7,690,634</u> |

Total Primary
Government

2005 2004

\$ 3,260,957 \$ 3,087,130

2,146,141 2,564,311

119,101 49,377

1,034,133 1,000,786

79,980 35,231

29,188 297,549

13,986 8,183

\$ 6,683,486 \$ 7,042,567

\$ 1,262,261 \$ 934,109

484,405 493,313

1,566,604 1,781,695

96,915 58,259

314,264 378,197

40,164 44,550

844,020 847,941

1,676,718 1,712,121

300,461 232,012

476,864 526,844

\$ 7,062,676 \$ 7,009,041

(\$ 379,190) \$ 33,526

119,870 19,405

(\$ 259,320) \$ 52,931

15,477,301 15,424,370

\$15,217,981 \$15,477,301

Business-Type Activities (Water, Sewer, Parking and Transit)

In 2004-2005 all of the funds experienced a loss in fund balance. This was mainly due to depreciation. The Water Fund did see a growth in net cash mainly due to the rate increase that we instituted at the beginning of the year. The City is still experiencing a reduction in usage from Michigan Technological University in both water and sewer and Portage Township in sewer. Both of these entities are making improvements to their systems to make them more efficient. We would not expect an increase in their usage in the near future.

The City Funds:

General Fund

In 2004-2005 the General Fund had an increase of fund equity of \$62,903. This is the first time in three years that we had an increase in fund equity. We had a slight increase in most of our revenue items except for the State Shared Revenue which we expect to continue to decrease. Both expenses and revenues were down due to the fact that last year we received a State grant to purchase 600 feet of waterfront, sold the Hellman Transportation Building and purchased the Peninsula Travel Agency building for a new Chamber of Commerce building. We also had a slight decrease in expenses for administration and public safety.

Major Street

The Major Street Fund showed a loss of fund balance which was due to the increased cost of snow removal. Revenue was up but not enough to cover the expenses for 2004-2005.

Local Street

The Local Street Fund lost \$43,000 in fund balance again due to the increase in maintenance costs for both summer and winter.

Public Improvement

The Public Improvement Fund lost \$10,043 but has some additional revenue from the DNR for the Nara Park Phase II project which we will not get until next spring. We are waiting for the inspection from the State to close out that project.

Parking

In 2004-2005 the Parking Fund had a loss in fund balance due to depreciation and a \$20,969 cash loss. Maintenance costs for both summer and winter were higher than expected. We did receive some revenue increase in both parking fines and permits.

Transit

The fund loss in Transit is due entirely to depreciation. Both revenue and expenses were down from last year. We had a slight increase in our cash reserves. During this year we had a significant increase in ridership fees which in turn reduced ridership. We were able to eliminate one bus route and reduced some of the demand bus hours.

Sewer Fund

This fund for 2004-2005 had a fund loss due to a loss in cash and depreciation expense. The City experienced a decrease in revenue from last year from both Michigan Technological University and Portage Township. We were unable to reduce expenses enough to cover the revenue reduction.

Water Fund

For 2004-2005 we show a loss in fund balance but we were able to increase our cash position due to the increase in water rates. Again, depreciation is a major factor for the fund loss.

Equipment Fund

For 2004-2005 the Equipment Fund had an increase in fund equity and an increase in the cash balance. Some of the cash is still owed by the Water Fund, Local Street Fund and Parking Fund. Expenditures for labor and fuel were significantly more than 2003-2004.

Employee Benefit

In 2003-2004 the Employee Benefit Fund loss was \$62,056 leaving a fund equity balance of a negative \$51,400. For 2004-2005 we increased the employee benefit rate to 100 percent of salaries which gave us a net operating income gain of \$111,124 and the fund balance is now \$59,723.

General Fund Budgetary Highlights

For 2004-2005 the City of Houghton General Fund received about \$52,000 for our 100th Anniversary Celebration of the Birthplace of Professional Hockey and a \$30,000 donation for renovations of the restrooms of the Kestner Waterfront Park by the Houghton Rotary Club. The expenses for the Hockey Celebration were included with Community Promotion expenses under General Government Administration. There was not anything else unusual that took place in the General Fund for 2004-2005.

Capital Assets-Debt Administration

Overall for 2004-2005 the City's Capital Assets were down \$278,599 due to depreciation. The overall City debt was down \$182,265 as we paid down some of our debt.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

Capital Asset and Debt Administration

| | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|---|------------------------------------|--------------------|-------------------------------------|---------------------|
| | <u>2005</u> | <u>2004</u> | <u>2005</u> | <u>2004</u> |
| Land | \$ 571,560 | \$ 529,196 | \$ - | \$ - |
| Investment in Portage Lake Water and Sewer Authority | - | - | 941,313 | 941,313 |
| Buildings | 1,320,488 | 1,361,224 | 162,709 | 169,356 |
| Improvements | 1,642,147 | 1,750,234 | 34,957 | 28,968 |
| Equipment | 1,238,165 | 1,201,338 | 307,685 | 356,883 |
| Infrastructure | <u>2,201,618</u> | <u>2,005,581</u> | <u>10,285,226</u> | <u>10,640,374</u> |
| Total | <u>\$6,973,978</u> | <u>\$6,847,573</u> | <u>\$11,731,890</u> | <u>\$12,136,894</u> |
| DEBT | | | | |
| General Obligation Bonds | \$ 535,000 | \$ 615,000 | \$ - | \$ - |
| Revenue Bonds | - | - | 5,095,000 | 5,164,000 |
| Installment Purchase Contract | 14,914 | 19,101 | - | - |
| Limited Tax Investment Note | 99,000 | 108,000 | - | - |
| Economic Development Grant Loan | <u>166,261</u> | <u>186,339</u> | <u>-</u> | <u>-</u> |
| Total | <u>\$ 815,175</u> | <u>\$ 928,440</u> | <u>\$ 5,095,000</u> | <u>\$ 5,164,000</u> |

Economic Factors for Next Year's Budget and Rates

For 2005-2006 the General Fund will see a slight increase in revenue mainly due to new construction. We have budgeted the same amount of State Shared Revenue from last year and hope that the State Legislature will not have to make a cut in our State Shared Revenues. We anticipate healthcare, utility, fuel and insurance costs to increase above the inflation rate. Revenue and expenses will also include a one mill revenue increase and bond expense for the new Library building.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and show the City's accountability for money it receives. If you have any questions about this report or need financial information, contact the City Clerk at 616 Shelden Avenue, Houghton, Michigan 49931.

Total Primary
Government

| <u>2005</u> | <u>2004</u> |
|-------------|-------------|
|-------------|-------------|

| | |
|------------|------------|
| \$ 571,560 | \$ 529,196 |
|------------|------------|

| | |
|---------|---------|
| 941,313 | 941,313 |
|---------|---------|

| | |
|-----------|-----------|
| 1,483,197 | 1,530,580 |
|-----------|-----------|

| | |
|-----------|-----------|
| 1,677,104 | 1,779,202 |
|-----------|-----------|

| | |
|-----------|-----------|
| 1,545,850 | 1,558,221 |
|-----------|-----------|

| | |
|-------------------|-------------------|
| <u>12,486,844</u> | <u>12,645,955</u> |
|-------------------|-------------------|

| | |
|---------------------|---------------------|
| <u>\$18,705,868</u> | <u>\$18,984,467</u> |
|---------------------|---------------------|

| | |
|------------|------------|
| \$ 535,000 | \$ 615,000 |
|------------|------------|

| | |
|-----------|-----------|
| 5,095,000 | 5,164,000 |
|-----------|-----------|

| | |
|--------|--------|
| 14,914 | 19,101 |
|--------|--------|

| | |
|--------|---------|
| 99,000 | 108,000 |
|--------|---------|

| | |
|----------------|----------------|
| <u>166,261</u> | <u>186,339</u> |
|----------------|----------------|

| | |
|---------------------|---------------------|
| <u>\$ 5,910,175</u> | <u>\$ 6,092,440</u> |
|---------------------|---------------------|

CITY OF HOUGHTON, MICHIGAN
GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2005

| | Primary Government | | | |
|-------------------------|---------------------|---------------------|---------------------|--------------------|
| | Governmental | Business - | | Component |
| | Activities | Type | Total | Units |
| | | Activities | | |
| ASSETS | | | | |
| Cash | \$ 976,581 | \$ 285,861 | \$ 1,262,442 | \$ 435,844 |
| Accounts receivable | 71,353 | 289,800 | 361,153 | - |
| Taxes receivable | 45,614 | - | 45,614 | 44,313 |
| Due from other | | | | |
| governmental units | 288,246 | 13,583 | 301,829 | 339,748 |
| Internal balances | 151,314 | (151,314) | - | - |
| Inventories | 7,757 | - | 7,757 | - |
| Restricted assets | - | 363,629 | 363,629 | - |
| Investments | 372,414 | - | 372,414 | - |
| Long-term loans | 424,039 | - | 424,039 | - |
| Capital assets - net | <u>6,973,978</u> | <u>11,731,890</u> | <u>18,705,868</u> | <u>3,784,938</u> |
| TOTAL ASSETS | <u>\$ 9,311,296</u> | <u>\$12,533,449</u> | <u>\$21,844,745</u> | <u>\$4,604,843</u> |
| LIABILITIES | | | | |
| Accounts payable | \$ 113,400 | \$ 29,158 | \$ 142,558 | \$ 54,066 |
| Accrued expenses | 86,634 | 107,604 | 194,238 | 38,651 |
| Due to component unit | 101,174 | - | 101,174 | (39,396) |
| Due to other | | | | |
| governmental units | - | 47,881 | 47,881 | - |
| Noncurrent liabilities: | | | | |
| Due within one year | 118,997 | 93,000 | 211,997 | 259,236 |
| Due in more than | | | | |
| one year | <u>926,916</u> | <u>5,002,000</u> | <u>5,928,916</u> | <u>2,677,529</u> |
| TOTAL LIABILITIES | <u>\$ 1,347,121</u> | <u>\$ 5,279,643</u> | <u>\$ 6,626,764</u> | <u>\$2,990,086</u> |
| NET ASSETS | | | | |
| Invested in capital | | | | |
| assets, net of | | | | |
| related debt | \$ 5,788,114 | \$ 6,636,890 | \$12,425,004 | \$2,115,411 |
| Restricted for | | | | |
| debt service | - | 286,811 | 286,811 | - |
| Unrestricted | <u>2,176,061</u> | <u>330,105</u> | <u>2,506,166</u> | <u>(500,654)</u> |
| TOTAL NET ASSETS | <u>\$ 7,964,175</u> | <u>\$ 7,253,806</u> | <u>\$15,217,981</u> | <u>\$1,614,757</u> |

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

GOVERNMENT-WIDE - STATEMENT OF ACTIVITIES

Year ended June 30, 2005

| | | <u>Program Revenues</u> | | |
|--------------------------------|--------------------|-------------------------------------|---|---|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| | <u>Expenses</u> | | | |
| Functions/Programs | | | | |
| Primary Government: | | | | |
| Governmental activities: | | | | |
| General government | \$1,262,261 | \$ 257,660 | \$ 848,976 | \$ - |
| Public safety | 484,405 | 13,362 | 11,479 | - |
| Public works | 1,566,604 | 403,492 | 1,061,733 | 80,894 |
| Community development | 96,915 | - | - | - |
| Recreation and parks | 314,264 | 112,186 | - | 30,000 |
| Interest on long-term debt | <u>40,164</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL GOVERNMENTAL ACTIVITIES | <u>\$3,764,613</u> | <u>\$ 786,700</u> | <u>\$ 1,922,188</u> | <u>\$ 110,894</u> |
| Business-type activities: | | | | |
| Water | \$ 844,020 | \$ 708,619 | \$ - | \$ - |
| Sewer | 1,676,718 | 1,541,847 | 917 | - |
| Parking | 300,461 | 112,064 | - | - |
| Transit | <u>476,864</u> | <u>111,727</u> | <u>223,036</u> | <u>8,207</u> |
| TOTAL BUSINESS-TYPE ACTIVITIES | <u>\$3,298,063</u> | <u>\$2,474,257</u> | <u>\$ 223,953</u> | <u>\$ 8,207</u> |
| TOTAL PRIMARY GOVERNMENT | <u>\$7,062,676</u> | <u>\$3,260,957</u> | <u>\$ 2,146,141</u> | <u>\$ 119,101</u> |
| Component Units: | | | | |
| DDA | \$ 96,357 | \$ - | \$ - | \$ - |
| TIFA | 241,299 | - | - | - |
| Brownfield | <u>8,508</u> | <u>-</u> | <u>8,508</u> | <u>-</u> |
| TOTAL COMPONENT UNITS | <u>\$ 346,164</u> | <u>\$ -</u> | <u>\$ 8,508</u> | <u>\$ -</u> |

General revenues:

Property taxes, levied for general purposes
 Unrestricted investment earnings
 Miscellaneous
 Special item-Gain on sale of assets
 Transfers

Total general revenues, special items and transfers

Change in net assets

Net assets at beginning of year, as adjusted

Net assets at end of year

The accompanying notes to financial statements are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets
Primary Government

| <u>Government Activities</u> | <u>Business- type Activities</u> | <u>Total</u> | <u>Component Units</u> |
|----------------------------------|--|---------------------|----------------------------|
| (\$ 155,625) | \$ - | (\$ 155,625) | |
| (459,564) | - | (459,564) | |
| (20,485) | - | (20,485) | |
| (96,915) | - | (96,915) | |
| (172,078) | - | (172,078) | |
| (40,164) | - | (40,164) | |
| (\$ 944,831) | \$ - | (\$ 944,831) | |
| \$ - | (\$ 135,401) | (\$ 135,401) | |
| - | (133,954) | (133,954) | |
| - | (188,397) | (188,397) | |
| - | (133,894) | (133,894) | |
| \$ - | (\$ 591,646) | (\$ 591,646) | |
| (\$ 944,831) | (\$ 591,646) | (\$ 1,536,477) | |
| \$ - | \$ - | \$ - | (\$ 96,357) |
| - | - | - | (241,299) |
| - | - | - | - |
| \$ - | \$ - | \$ - | (\$ 337,656) |
| \$1,034,133 | \$ - | \$ 1,034,133 | \$ 809,796 |
| 64,162 | 15,818 | 79,980 | 9,949 |
| 13,986 | - | 13,986 | - |
| 29,188 | - | 29,188 | - |
| (19,130) | 139,000 | 119,870 | (119,870) |
| \$1,122,339 | \$ 154,818 | \$ 1,277,157 | \$ 699,875 |
| \$ 177,508 | (\$ 436,828) | (\$ 259,320) | \$ 362,219 |
| 7,786,667 | 7,690,634 | 15,477,301 | 1,252,538 |
| <u>\$7,964,175</u> | <u>\$7,253,806</u> | <u>\$15,217,981</u> | <u>\$1,614,757</u> |

CITY OF HOUGHTON, MICHIGAN

GOVERNMENTAL FUNDS
BALANCE SHEET

June 30, 2005

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> |
|--------------------------------------|--------------------|-------------------------|-------------------------|
| <u>ASSETS</u> | | | |
| Cash and cash equivalents | \$ 546,446 | \$ 80,212 | \$ 64,083 |
| Accounts receivable | 71,353 | - | - |
| Taxes receivable | 45,614 | - | - |
| Inventories | 7,757 | - | - |
| Due from other funds | 77,428 | 12,408 | - |
| Due from other governmental units | 104,280 | 66,912 | 60,536 |
| Due from component units | 4,000 | - | - |
| Long-term loan | 90,402 | - | - |
| Investments | 372,414 | - | - |
| TOTAL ASSETS | <u>\$1,319,694</u> | <u>\$ 159,532</u> | <u>\$ 124,619</u> |
| <u>LIABILITIES AND FUND BALANCES</u> | | | |
| <u>LIABILITIES</u> | | | |
| Accounts payable | \$ 58,114 | \$ 696 | \$ 4,722 |
| Accrued expenses | 64,938 | 5,304 | 2,417 |
| Due to other funds | 107,595 | 41,777 | 117,063 |
| Due to component units | 15,483 | - | - |
| Deferred revenue | 106,778 | - | - |
| TOTAL LIABILITIES | <u>\$ 352,908</u> | <u>\$ 47,777</u> | <u>\$ 124,202</u> |
| <u>FUND BALANCES</u> | | | |
| Reserved for inventory | \$ 7,757 | \$ - | \$ - |
| Unreserved, reported in: | | | |
| General fund | 959,029 | - | - |
| Special revenue funds | - | 111,755 | 417 |
| Capital project fund | - | - | - |
| Debt service fund | - | - | - |
| TOTAL FUND BALANCES | <u>\$ 966,786</u> | <u>\$ 111,755</u> | <u>\$ 417</u> |
| TOTAL LIABILITIES AND FUND BALANCES | <u>\$1,319,694</u> | <u>\$ 159,532</u> | <u>\$ 124,619</u> |

The accompanying notes to financial statements
are an integral part of this statement.

| <u>Revolving</u> | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total</u> |
|-------------------|-----------------------------|-------------------------|--------------------|
| \$ 105,467 | \$ 66,800 | \$ 115 | \$ 863,123 |
| - | - | - | 71,353 |
| - | - | - | 45,614 |
| - | - | - | 7,757 |
| 61,363 | 79,974 | - | 231,173 |
| - | 56,518 | - | 288,246 |
| - | - | - | 4,000 |
| 333,637 | - | - | 424,039 |
| - | - | - | 372,414 |
| <u>\$ 500,467</u> | <u>\$ 203,292</u> | <u>\$ 115</u> | <u>\$2,307,719</u> |

| | | | |
|-------------------|-------------------|-------------|--------------------|
| \$ - | \$ 394 | \$ - | \$ 63,926 |
| - | 4,750 | - | 77,409 |
| - | 68,791 | - | 335,226 |
| - | 88,769 | - | 104,252 |
| 333,637 | - | - | 440,415 |
| <u>\$ 333,637</u> | <u>\$ 162,704</u> | <u>\$ -</u> | <u>\$1,021,228</u> |

| | | | |
|-------------------|-------------------|---------------|--------------------|
| \$ - | \$ - | \$ - | \$ 7,757 |
| - | - | - | 959,029 |
| 166,830 | - | - | 279,002 |
| - | 40,588 | - | 40,588 |
| - | - | 115 | 115 |
| <u>\$ 166,830</u> | <u>\$ 40,588</u> | <u>\$ 115</u> | <u>\$1,286,491</u> |
| <u>\$ 500,467</u> | <u>\$ 203,292</u> | <u>\$ 115</u> | <u>\$2,307,719</u> |

CITY OF HOUGHTON, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO STATEMENT OF NET ASSETS

June 30, 2005

| | |
|--|--------------------|
| Total fund balance - total governmental funds | \$1,286,491 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | 5,915,521 |
| Internal service funds are used by management to charge the costs of certain activities, such as equipment rental, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets. | 1,258,414 |
| Interest payable on long-term debt does not require current financial resources. Therefore interest payable is not reported as a liability in governmental funds balance sheet. | (4,666) |
| Deferred revenue is unavailable revenue and therefore is not reported as a liability in the statement of net assets. | 440,415 |
| Long-term liabilities are not due and payable in the current period and, therefore, they are not reported in the governmental funds balance sheet. | (<u>932,000</u>) |
| Net assets of governmental activities | <u>\$7,964,175</u> |

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
Year ended June 30, 2005

| | <u>General</u> | <u>Major Street</u> | <u>Local Street</u> |
|---|---------------------|-------------------------|-------------------------|
| REVENUES: | | | |
| Taxes | \$ 943,560 | \$ - | \$ 119,326 |
| License and permits | 1,275 | - | - |
| State grants | 860,455 | 813,695 | 248,038 |
| Charges for services | 773,925 | - | - |
| Interest and rents | 54,149 | 1,735 | 809 |
| Other revenue | <u>66,753</u> | <u>-</u> | <u>130</u> |
| TOTAL REVENUES | <u>\$2,700,117</u> | <u>\$ 815,430</u> | <u>\$ 368,303</u> |
| EXPENDITURES: | | | |
| General government | \$ 575,296 | \$ 16,268 | \$ 17,131 |
| Public safety | 474,456 | - | - |
| Public works | 603,383 | 716,564 | 408,579 |
| Recreation and parks | 200,289 | - | - |
| Other expenditures | 540,129 | 132,236 | 77,600 |
| Debt service: | | | |
| Principal | 20,078 | - | - |
| Interest and other charges | <u>5,308</u> | <u>-</u> | <u>-</u> |
| TOTAL EXPENDITURES | <u>\$2,418,939</u> | <u>\$ 865,068</u> | <u>\$ 503,310</u> |
| Excess (deficiency) of revenues over expenditures | <u>\$ 281,178</u> | <u>(\$ 49,638)</u> | <u>(\$ 135,007)</u> |
| OTHER FINANCING SOURCES (USES): | | | |
| Transfers in | \$ - | \$ - | \$ 92,000 |
| Transfers out | <u>(218,275)</u> | <u>-</u> | <u>-</u> |
| TOTAL OTHER FINANCING SOURCES (USES) | <u>(\$ 218,275)</u> | <u>\$ -</u> | <u>\$ 92,000</u> |
| EXCESS (DEFICIENCY) OF REVENUES AND OTHER SOURCES OVER EXPENDITURES AND OTHER USES | <u>\$ 62,903</u> | <u>(\$ 49,638)</u> | <u>(\$ 43,007)</u> |
| Fund balances at beginning of year | \$ 903,883 | \$ 161,393 | \$ 43,424 |
| Fund balances at end of year | <u>\$ 966,786</u> | <u>\$ 111,755</u> | <u>\$ 417</u> |

The accompanying notes to financial statements
are an integral part of this statement.

| <u>Revolving</u> | <u>Capital Projects</u> | <u>Debt Service</u> | <u>Total</u> |
|------------------|-----------------------------|-------------------------|---------------|
| \$ - | \$ - | \$ - | \$1,062,886 |
| - | - | - | 1,275 |
| - | 80,894 | - | 2,003,082 |
| - | - | - | 773,925 |
| 5,256 | - | - | 61,949 |
| <u>6,316</u> | <u>-</u> | <u>-</u> | <u>73,199</u> |
| \$ 11,572 | \$ 80,894 | \$ - | \$3,976,316 |

| | | | |
|-----------|------------|---------------|---------------|
| \$ 1,304 | \$ 24,574 | \$ - | \$ 634,573 |
| - | - | - | 474,456 |
| - | 141,364 | - | 1,869,890 |
| - | - | - | 200,289 |
| 96,000 | - | - | 845,965 |
| - | - | 80,000 | 100,078 |
| <u>-</u> | <u>-</u> | <u>30,015</u> | <u>35,323</u> |
| \$ 97,304 | \$ 165,938 | \$ 110,015 | \$4,160,574 |

(\$ 85,732) (\$ 85,044) (\$ 110,015) (\$ 184,258)

| | | | |
|----------|-----------|------------|-------------------|
| \$ - | \$ 75,000 | \$ 110,015 | \$ 277,015 |
| <u>-</u> | <u>-</u> | <u>-</u> | <u>(218,275)</u> |
| \$ - | \$ 75,000 | \$ 110,015 | \$ 58,740 |

(\$ 85,732) (\$ 10,044) \$ - (\$ 125,518)

| | | | |
|-------------------|------------------|---------------|--------------------|
| \$ 252,562 | \$ 50,632 | \$ 115 | \$1,412,009 |
| <u>\$ 166,830</u> | <u>\$ 40,588</u> | <u>\$ 115</u> | <u>\$1,286,491</u> |

CITY OF HOUGHTON, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCE OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

June 30, 2005

Net change in fund balances - total governmental funds (\$125,518)

Governmental funds report capital outlay as expenditures.

However, in the government-wide statement of activities and changes in net assets, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount of capital assets recorded in the current period. 340,339

Depreciation expense on capital assets is reported in the government-wide statement of activities and changes in net assets, but they do not require the use of current financial resources; therefore, depreciation expense is not reported as an expenditure in governmental funds. Includes Internal Service Fund's depreciation expense of \$212,878. (483,880)

Repayments of long-term debt is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt). 76,897

New revolving loans, in the amount of \$96,000, are expenditures in the governmental funds. Repayments of revolving loan fund loan principal, in the amount of \$6,316 is recorded as revenue in the governmental funds. Additional interest due from revolving loans in the amount of \$2,175 is recorded as receivable in the governmental funds. These amounts are not recorded in the statement of activities. 91,859

Some property tax and long-term receivables will not be collected until after the City's fiscal year end; therefore, they are not considered "available" revenues in the governmental funds. (40,150)

Accrued interest expense on long-term debt is reported in the government-wide statement of activities and changes in net assets, but does not require the use of current financial resources; therefore, accrued interest expense is not reported as an expenditure in governmental funds. 673

Internal service funds are used by management to charge the costs of certain activities, such as equipment rentals, to individual funds. The net revenue of the Internal Service Fund is reported with governmental activities net of amount allocated to business-type and component units activities and depreciation expense.

| | | |
|--|-----------|----------------|
| Change in net assets | \$144,932 | |
| Net of amount allocated to business-type and component unit activities | (40,522) | |
| Depreciation expense | 212,878 | <u>317,288</u> |

Change in net assets of governmental activities \$177,508

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF NET ASSETS

June 30, 2005

| | <u>Business-Type Activities - Enterprise Funds</u> | | | |
|---|--|---|------------------------------------|-------------------------|
| | <u>Water Supply Fund</u> | <u>Sewer Disposal System Fund</u> | <u>Parking System Fund</u> | <u>Transit Fund</u> |
| <u>ASSETS</u> | | | | |
| <u>CURRENT ASSETS</u> | | | | |
| Cash | \$ 15,338 | \$ 250,048 | \$ 5,152 | \$ 15,323 |
| Accounts receivable | 88,783 | 194,847 | 556 | 5,614 |
| Due from other funds | - | 90,678 | - | 19,000 |
| Due from component units | - | - | - | - |
| Due from other governmental units | - | 2,101 | - | 11,482 |
| TOTAL CURRENT ASSETS | <u>\$ 104,121</u> | <u>\$ 537,674</u> | <u>\$ 5,708</u> | <u>\$ 51,419</u> |
| <u>NONCURRENT ASSETS</u> | | | | |
| Restricted assets | \$ 328,257 | \$ 35,372 | \$ - | \$ - |
| Capital assets: | | | | |
| Property and equipment | 9,316,312 | 5,472,326 | 4,418,758 | 1,250,829 |
| Less accumulated depreciation | (3,286,275) | (3,252,856) | (2,190,496) | (938,021) |
| Investment in Portage Lake Water and Sewer Authority | - | 941,313 | - | - |
| TOTAL NONCURRENT ASSETS | <u>\$6,358,294</u> | <u>\$3,196,155</u> | <u>\$2,228,262</u> | <u>\$ 312,808</u> |
| TOTAL ASSETS | <u>\$6,462,415</u> | <u>\$3,733,829</u> | <u>\$2,233,970</u> | <u>\$ 364,227</u> |

The accompanying notes to financial statements
are an integral part of this statement.

Governmental
Activities -
Internal
Service
Fund

Totals

| | |
|---------------------|---------------------|
| \$ 285,861 | \$ 113,458 |
| 289,800 | - |
| 109,678 | 422,810 |
| - | 16,558 |
| <u>13,583</u> | <u>-</u> |
| <u>\$ 698,922</u> | <u>\$ 552,826</u> |
| \$ 363,629 | \$ - |
| 20,458,225 | 3,328,867 |
| (9,667,648) | (2,270,410) |
| <u>941,313</u> | <u>-</u> |
| <u>\$12,095,519</u> | <u>\$ 1,058,457</u> |
| <u>\$12,794,441</u> | <u>\$ 1,611,283</u> |

CITY OF HOUGHTON, MICHIGAN
PROPRIETARY FUNDS
STATEMENT OF NET ASSETS (CONTINUED)
June 30, 2005

| | <u>Business-Type Activities - Enterprise Funds</u> | | | |
|---|--|---|------------------------------------|-------------------------|
| | <u>Water Supply Fund</u> | <u>Sewer Disposal System Fund</u> | <u>Parking System Fund</u> | <u>Transit Fund</u> |
| <u>LIABILITIES</u> | | | | |
| <u>CURRENT LIABILITIES</u> | | | | |
| Accounts payable | \$ 18,007 | \$ 513 | \$ 7,036 | \$ 3,602 |
| Accrued wages and benefits | 8,296 | 6,347 | 3,083 | 13,060 |
| Accrued expenses | 67,006 | 9,812 | - | - |
| Due to other funds | 127,894 | - | 190,642 | - |
| Due to other governmental units | - | - | - | 47,881 |
| Current maturities on long- term debt | <u>53,000</u> | <u>40,000</u> | <u>-</u> | <u>-</u> |
| TOTAL CURRENT LIABILITIES | <u>\$ 274,203</u> | <u>\$ 56,672</u> | <u>\$ 200,761</u> | <u>\$ 64,543</u> |
| <u>NONCURRENT LIABILITIES</u> | | | | |
| Loans payable | \$ - | \$ - | \$ - | \$ - |
| Bonds payable | 4,505,000 | 590,000 | - | - |
| Less current maturities | (<u>53,000</u>) | (<u>40,000</u>) | <u>-</u> | <u>-</u> |
| TOTAL NONCURRENT LIABILITIES | <u>\$4,452,000</u> | <u>\$ 550,000</u> | <u>\$ -</u> | <u>\$ -</u> |
| TOTAL LIABILITIES | <u>\$4,726,203</u> | <u>\$ 606,672</u> | <u>\$ 200,761</u> | <u>\$ 64,543</u> |
| <u>NET ASSETS</u> | | | | |
| Invested in capital assets - net of related debt | \$1,525,037 | \$2,570,783 | \$2,228,262 | \$312,808 |
| Restricted for debt service | 261,251 | 25,560 | - | - |
| Unrestricted | (<u>50,076</u>) | <u>530,814</u> | (<u>195,053</u>) | (<u>13,124</u>) |
| TOTAL NET ASSETS | <u>\$1,736,212</u> | <u>\$3,127,157</u> | <u>\$2,033,209</u> | <u>\$299,684</u> |

Reconciliation to government-wide statements of net assets:

Adjustment to reflect the consolidation of Internal Service Funds' activities related to enterprise funds.

Net assets of business-type activities.

The accompanying notes to financial statements are an integral part of this statement.

Governmental
Activities -
Internal
Service
Fund

Totals

| | |
|---------------------|---------------------|
| \$ 29,158 | \$ 47,062 |
| 30,786 | - |
| 76,818 | 4,559 |
| 318,536 | 112,311 |
| 47,881 | - |
| <u>93,000</u> | <u>13,336</u> |
| \$ 596,179 | \$ 177,268 |
| \$ - | \$ 113,913 |
| 5,095,000 | - |
| (<u>93,000</u>) | (<u>13,336</u>) |
| \$ 5,002,000 | \$ 100,577 |
| \$ 5,598,179 | \$ 277,845 |
| \$ 6,636,890 | \$ 944,544 |
| 286,811 | - |
| <u>272,561</u> | <u>388,894</u> |
| \$ 7,196,262 | \$ <u>1,333,438</u> |
| <u>57,544</u> | |
| <u>\$ 7,253,806</u> | |

CITY OF HOUGHTON, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

Year ended June 30, 2005

| | <u>Business-Type Activities - Enterprise Funds</u> | | | |
|---|--|---|------------------------------------|-------------------------|
| | <u>Water Supply Fund</u> | <u>Sewer Disposal System Fund</u> | <u>Parking System Fund</u> | <u>Transit Fund</u> |
| Operating revenues: | | | | |
| Utility Services | \$ 685,525 | \$1,541,511 | \$ - | \$ - |
| Parking revenues | - | - | 112,064 | - |
| Transit fares | - | - | - | 111,727 |
| Rents and other revenues | <u>23,094</u> | <u>1,253</u> | <u>-</u> | <u>-</u> |
| TOTAL OPERATING REVENUES | <u>\$ 708,619</u> | <u>\$1,542,764</u> | <u>\$ 112,064</u> | <u>\$111,727</u> |
| Operating expenses: | | | | |
| Operating expenses - | | | | |
| Less depreciation | \$ 463,208 | \$1,554,068 | \$ 203,042 | \$345,698 |
| Depreciation | <u>184,631</u> | <u>100,142</u> | <u>108,544</u> | <u>73,585</u> |
| TOTAL OPERATING EXPENSES | <u>\$ 647,839</u> | <u>\$1,654,210</u> | <u>\$ 311,586</u> | <u>\$419,283</u> |
| OPERATING INCOME (LOSS) | <u>\$ 60,780</u> | <u>(\$ 111,446)</u> | <u>(\$ 199,522)</u> | <u>(\$307,556)</u> |
| Non-operating revenues: | | | | |
| Interest income and other revenue | \$ 10,818 | \$ 4,965 | \$ 10 | \$ 25 |
| Gain on sale of equipment | - | - | - | - |
| Operating grants | <u>-</u> | <u>-</u> | <u>-</u> | <u>223,036</u> |
| TOTAL NON-OPERATING REVENUES | <u>\$ 10,818</u> | <u>\$ 4,965</u> | <u>\$ 10</u> | <u>\$223,061</u> |
| Non-operating expenses: | | | | |
| Interest | \$ 204,617 | \$ 33,006 | \$ - | \$ 90 |
| Service grants | <u>-</u> | <u>-</u> | <u>-</u> | <u>57,493</u> |
| TOTAL NON-OPERATING EXPENSES | <u>\$ 204,617</u> | <u>\$ 33,006</u> | <u>\$ -</u> | <u>\$ 57,583</u> |
| INCOME (LOSS) BEFORE CONTRIBUTIONS AND TRANSFERS | <u>(\$ 133,019)</u> | <u>(\$ 139,487)</u> | <u>(\$ 199,512)</u> | <u>(\$142,078)</u> |
| Capital contributions | - | - | - | 8,207 |
| Transfers in (out) | <u>-</u> | <u>-</u> | <u>70,000</u> | <u>69,000</u> |
| CHANGE IN NET ASSETS | <u>(\$ 133,019)</u> | <u>(\$ 139,487)</u> | <u>(\$ 129,512)</u> | <u>(\$ 64,871)</u> |
| Total net assets - beginning | <u>\$1,869,231</u> | <u>\$3,266,644</u> | <u>\$2,162,721</u> | <u>\$364,555</u> |
| Total net assets - ending | <u>\$1,736,212</u> | <u>\$3,127,157</u> | <u>\$2,033,209</u> | <u>\$299,684</u> |

Amounts reported for business-type activities in the statement of activities are different because:

The net revenue (expense) of certain internal funds are reported with business-type activities.

Change in net assets of business-type activities.

The accompanying notes to financial statements are an integral part of this statement.

Governmental
Activities-
Internal
Service
Fund

Totals

| | |
|--------------------|-------------------|
| \$2,227,036 | \$ - |
| 112,064 | - |
| 111,727 | - |
| <u>24,347</u> | <u>896,903</u> |
| <u>\$2,475,174</u> | <u>\$ 896,903</u> |

| | |
|---------------------|-------------------|
| \$2,566,016 | \$ 484,935 |
| <u>466,902</u> | <u>212,878</u> |
| <u>\$3,032,918</u> | <u>\$ 697,813</u> |
| <u>(\$ 557,744)</u> | <u>\$ 199,090</u> |

| | |
|-------------------|------------------|
| \$ 15,818 | \$ 38 |
| - | 29,188 |
| <u>223,036</u> | <u>-</u> |
| <u>\$ 238,854</u> | <u>\$ 29,226</u> |

| | |
|---------------------|-------------------|
| \$ 237,713 | \$ 5,514 |
| <u>57,493</u> | <u>-</u> |
| <u>\$ 295,206</u> | <u>\$ 5,514</u> |
| <u>(\$ 614,096)</u> | <u>\$ 222,802</u> |

| | |
|---------------------|----------------------------|
| 8,207 | - |
| <u>139,000</u> | <u>(77,870)</u> |
| <u>(\$ 466,889)</u> | <u>\$ 144,932</u> |
| | <u>\$ 1,188,506</u> |
| | <u><u>\$ 1,333,438</u></u> |

| |
|---------------------|
| <u>30,061</u> |
| <u>(\$ 436,828)</u> |

CITY OF HOUGHTON, MICHIGAN

PROPRIETARY FUNDS
STATEMENT OF CASH FLOWS

Year ended June 30, 2005

| | Business-Type Activities Enterprise Funds | | |
|---|--|-------------------------------------|---------------------------|
| | Water Supply Fund | Sewer Disposal System Fund | Parking System Fund |
| Cash flows from operating activities: | | | |
| Receipts from customers | \$685,204 | \$1,600,172 | \$111,513 |
| Payments to suppliers | (282,530) | (1,423,183) | (107,921) |
| Payments to employees | (198,141) | (142,450) | (89,294) |
| Other receipts (payments) | - | 917 | - |
| Net cash provided (used) by operating activities | <u>\$204,533</u> | <u>\$ 35,456</u> | <u>(\$ 85,702)</u> |
| Cash flows from noncapital financing activities: | | | |
| (Increase) decrease in due from other funds and component units | \$ - | \$ 47,434 | \$ - |
| (Increase) decrease in due from other governmental units | - | (2,101) | - |
| Increase (decrease) in due to other funds and component units | 86,408 | (9,823) | 13,118 |
| Increase (decrease) in due to other governmental units | - | (10,213) | - |
| Transfers from other funds and component units | - | - | 70,000 |
| Transfers to other funds and component units | - | - | - |
| Proceeds from grants | - | - | - |
| Specialized services grants paid | - | - | - |
| Interest expense and finance charges | - | - | - |
| Net cash provided (used) by noncapital financing activities | <u>\$ 86,408</u> | <u>\$ 25,297</u> | <u>\$ 83,118</u> |
| Cash flows from capital and related financing activities: | | | |
| Capital contributions | \$ - | \$ - | \$ - |
| Proceeds from sale of equipment | - | - | - |
| Acquisition of property, plant and equipment | (28,800) | (24,890) | - |
| Issuance (reduction) of long-term debt | (39,000) | (30,000) | - |
| (Increase) decrease in grants receivable | - | - | - |
| (Increase) decrease in restricted assets | (44,186) | (4,091) | - |
| Interest paid on long-term debt | (205,217) | (33,429) | - |
| Net cash provided (used) by capital and related financing activities | <u>(\$317,203)</u> | <u>(\$ 92,410)</u> | <u>\$ -</u> |

The accompanying notes to financial statements
are an integral part of this statement.

| <u>Transit Fund</u> | <u>Totals</u> | <u>Governmental Activities - Internal Service Fund</u> |
|-------------------------|---------------------|--|
| \$ 112,675 | \$2,509,564 | \$ 612,139 |
| (115,913) | (1,929,547) | (422,550) |
| (240,908) | (670,793) | (92,099) |
| <u>-</u> | <u>917</u> | <u>-</u> |
| (\$ 244,146) | (\$ 89,859) | \$ 97,490 |
| (\$ 19,000) | \$ 28,434 | \$ 92,000 |
| (9,940) | (12,041) | - |
| (10) | 89,693 | - |
| 22,340 | 12,127 | - |
| 69,000 | 139,000 | 14,130 |
| - | - | (92,000) |
| 223,036 | 223,036 | - |
| (57,493) | (57,493) | - |
| (90) | (90) | - |
| <u>\$ 227,843</u> | <u>\$ 422,666</u> | <u>\$ 14,130</u> |
| \$ 8,207 | \$ 8,207 | \$ - |
| - | - | 54,801 |
| (8,207) | (61,897) | (263,569) |
| - | (69,000) | (13,187) |
| 1,653 | 1,653 | - |
| - | (48,277) | - |
| <u>-</u> | <u>(238,646)</u> | <u>(5,653)</u> |
| <u>\$ 1,653</u> | <u>(\$ 407,960)</u> | <u>(\$ 227,608)</u> |

CITY OF HOUGHTON, MICHIGAN
 PROPRIETARY FUNDS
 STATEMENT OF CASH FLOWS (CONTINUED)
 Year ended June 30, 2005

| | Business-Type Activities Enterprise Funds | | |
|---|--|-------------------------------------|---------------------------|
| | Water Supply Fund | Sewer Disposal System Fund | Parking System Fund |
| Cash flows from investing activities - | | | |
| Interest received | \$ 10,818 | \$ 4,965 | \$ 10 |
| Net increase (decrease) in cash and cash equivalents | (\$ 15,444) | (\$ 26,692) | (\$ 2,574) |
| Cash - beginning of year | 30,782 | 276,740 | 7,726 |
| Cash - end of year | <u>\$ 15,338</u> | <u>\$ 250,048</u> | <u>\$ 5,152</u> |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | |
| Operating income (loss) | \$ 60,780 | (\$ 111,446) | (\$ 199,522) |
| Adjustments to reconcile operating income to net cash provided (used) by operating activities - | | | |
| Depreciation expense | 184,631 | 100,142 | 108,544 |
| Changes in assets and liabilities: | | | |
| Receivables | (23,415) | 58,325 | (551) |
| Accounts and other payables | (17,270) | (11,877) | 5,004 |
| Due from other funds and component units | - | - | - |
| Due to other funds | - | - | - |
| Accrued expenses | (193) | 312 | 823 |
| Net cash provided by operating activities | <u>\$ 204,533</u> | <u>\$ 35,456</u> | <u>(\$ 85,702)</u> |

The accompanying notes to financial statements
are an integral part of this statement.

| <u>Transit Fund</u> | <u>Totals</u> | <u>Governmental Activities - Internal Service Fund</u> |
|-------------------------|--------------------|--|
| \$ 25 | \$ 15,818 | \$ 38 |
| (\$ 14,625) | (\$ 59,335) | (\$ 115,950) |
| 29,948 | 345,196 | 229,408 |
| <u>\$ 15,323</u> | <u>\$ 285,861</u> | <u>\$ 113,458</u> |
| (\$ 307,556) | (\$ 557,744) | \$ 199,090 |
| 73,585 | 466,902 | 212,878 |
| 948 | 35,307 | - |
| (11,483) | (35,626) | (30,048) |
| - | - | (181,035) |
| - | - | (103,729) |
| <u>360</u> | <u>1,302</u> | <u>334</u> |
| <u>(\$ 244,146)</u> | <u>(\$ 89,859)</u> | <u>\$ 97,490</u> |

CITY OF HOUGHTON, MICHIGAN

FIDUCIARY FUND TYPES
STATEMENT OF NET ASSETS

June 30, 2005

| | Pension Trust Fund Employee Retirement Fund | Employee Benefit Fund | Agency Fund Tax Collection Fund |
|--|--|-----------------------------|---------------------------------------|
| ASSETS | | | |
| Cash | \$ 73,353 | \$ 163,518 | \$ 14,339 |
| Investments - at fair value | 4,403,594 | - | - |
| Due from other funds | - | 2,412 | - |
| Prepaid expenses | - | 47,218 | - |
| Loans to retirement plan participants | 151,916 | - | - |
| TOTAL ASSETS | \$ 4,628,863 | \$ 213,148 | \$ 14,339 |
| LIABILITIES | | | |
| Cash overdraft | \$ - | \$ 746 | \$ - |
| Accounts payable | - | 3,339 | - |
| Accrued expenses and payroll taxes | - | 1,855 | - |
| Due to other governmental units | - | - | 76,117 |
| Due to component units | - | - | (61,778) |
| Accumulated employee sick leave | - | 59,611 | - |
| Accumulated employee vacation | - | 87,874 | - |
| TOTAL LIABILITIES | \$ - | \$ 153,425 | \$ 14,339 |
| NET ASSETS | | | |
| Held in trust for pension benefits | \$ 4,628,863 | \$ - | \$ - |
| Unrestricted | - | 59,723 | - |
| TOTAL NET ASSETS | \$ 4,628,863 | \$ 213,148 | \$ - |

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 FIDUCIARY FUND TYPES
 STATEMENT OF CHANGES IN NET ASSETS
 Year ended June 30, 2005

| | <u>Pension Trust Fund Employee Retirement Fund</u> | <u>Employee Benefit Fund</u> |
|------------------------------------|--|--------------------------------------|
| Operating revenues: | | |
| Employer contributions | \$ 177,104 | \$ - |
| Investment income (loss) | 170,518 | - |
| Charges for services | - | 1,036,244 |
| Other revenue | - | 4,109 |
| TOTAL OPERATING REVENUES | <u>\$ 347,622</u> | <u>\$1,040,353</u> |
| Operating expenses: | | |
| Plan distributions | \$ 174,592 | \$ - |
| Payroll taxes - employee share | - | 121,656 |
| Hospitalization insurance | - | 393,179 |
| Sick pay | - | 23,988 |
| Vacation pay | - | 85,169 |
| Holiday pay | - | 35,362 |
| Longevity pay | - | 10,050 |
| Workers' compensation insurance | - | 24,491 |
| Unemployment insurance | - | 10,754 |
| Retirement contributions | - | 177,104 |
| Life insurance | - | 31,346 |
| Disability insurance | - | 4,806 |
| Other | - | 11,324 |
| TOTAL OPERATING EXPENSES | <u>\$ 174,592</u> | <u>\$ 929,229</u> |
| OPERATING INCOME (LOSS) | <u>\$ 173,030</u> | <u>\$ 111,124</u> |
| Nonoperating revenues (expenses) - | | |
| Net appreciation (depreciation) | | |
| in fair value of investments | <u>160,215</u> | <u>-</u> |
| Changes in net assets | \$ 333,245 | \$ 111,124 |
| Net assets - beginning of year | <u>4,295,618</u> | <u>(51,104)</u> |
| Net assets - end of year | <u>\$ 4,628,863</u> | <u>\$ 59,723</u> |

The accompanying notes to financial statements are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN

COMPONENT UNITS
STATEMENT OF NET ASSETS

June 30, 2005

| | <u>Downtown Development Authority</u> | <u>Tax Increment Finance Authority</u> | <u>Brownfield Redevelopment Authority</u> | <u>Totals</u> |
|---|---|--|---|--------------------|
| <u>ASSETS</u> | | | | |
| Cash | \$ 1,329 | \$ 434,515 | \$ - | \$ 435,844 |
| Taxes receivable | 23,848 | 20,465 | - | 44,313 |
| Due from primary government | 4,256 | 102,388 | 15,483 | 122,127 |
| Due from other governmental units | - | - | 339,748 | 339,748 |
| Capital assets-net | <u>686,343</u> | <u>3,098,595</u> | <u>-</u> | <u>3,784,938</u> |
| TOTAL ASSETS | <u>\$ 715,776</u> | <u>\$3,655,963</u> | <u>\$ 355,231</u> | <u>\$4,726,970</u> |
| <u>LIABILITIES</u> | | | | |
| Accounts payable | \$ 6,432 | \$ 47,634 | \$ - | \$ 54,066 |
| Accrued expenses | 1,194 | 37,457 | - | 38,651 |
| Due to primary government | 5,209 | 77,522 | - | 82,731 |
| Noncurrent liabilities: | | | | |
| Due within one year | 110,000 | 110,000 | 39,236 | 259,236 |
| Due in more than one year | <u>902,490</u> | <u>1,474,527</u> | <u>300,512</u> | <u>2,677,529</u> |
| TOTAL LIABILITIES | <u>\$ 1,025,325</u> | <u>\$1,747,140</u> | <u>\$ 339,748</u> | <u>\$3,112,213</u> |
| <u>NET ASSETS</u> | | | | |
| Invested in capital assets, net of related debt | \$ 601,343 | \$1,514,068 | \$ - | \$2,115,411 |
| Unrestricted | (<u>910,892</u>) | <u>394,755</u> | <u>15,483</u> | (<u>500,654</u>) |
| TOTAL NET ASSETS | (<u>\$ 309,549</u>) | <u>\$1,908,823</u> | <u>\$ 15,483</u> | <u>\$1,614,757</u> |

The accompanying notes to financial statements
are an integral part of this statement.

CITY OF HOUGHTON, MICHIGAN
 COMPONENT UNITS - STATEMENT OF ACTIVITIES
 Year ended June 30, 2005

| | | <u>Program Revenues</u> | | |
|---------------------------------------|-------------------|-------------------------------------|---|---|
| | <u>Expenses</u> | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> |
| Functions/Programs | | | | |
| Downtown Development Authority: | | | | |
| General government | \$ 82,537 | \$ - | \$ - | \$ - |
| Public works | <u>13,820</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL DOWNTOWN DEVELOPMENT AUTHORITY | <u>\$ 96,357</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Tax Increment Finance Authority: | | | | |
| General government | \$ 169,221 | \$ - | \$ - | \$ - |
| Public works | <u>72,078</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| TOTAL TAX INCREMENT FINANCE AUTHORITY | <u>\$ 241,299</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| Brownfield Redevelopment Authority - | | | | |
| General government | <u>\$ 8,508</u> | <u>\$ -</u> | <u>\$ 8,508</u> | <u>\$ -</u> |

General revenues:
 Property taxes, levied for general purposes
 Unrestricted investment earnings
 Transfers

Change in net assets
 Net assets at beginning of year
 Net assets at end of year

The accompanying notes to financial statements are an integral part of this statement.

Net (Expense) Revenues and Changes in Net Assets

| <u>Downtown Development Authority</u> | <u>Tax Increment Finance Authority</u> | <u>Brownfield Redevelopment Authority</u> | <u>Total</u> |
|---|--|---|--------------------|
| (\$ 82,537) | \$ - | \$ - | (\$ 82,537) |
| (13,820) | - | - | (13,820) |
| (\$ 96,357) | \$ - | \$ - | (\$ 96,357) |
| \$ - | (\$ 169,221) | \$ - | (\$ 169,221) |
| - | (72,078) | - | (72,078) |
| \$ - | (\$ 241,299) | \$ - | (\$ 241,299) |
| \$ - | \$ - | \$ - | \$ - |
| \$ 272,733 | \$ 537,063 | \$ - | \$ 809,796 |
| 446 | 9,503 | - | 9,949 |
| (119,870) | - | - | (119,870) |
| \$ 153,309 | \$ 546,566 | \$ - | \$ 699,875 |
| \$ 56,952 | \$ 305,267 | \$ - | \$ 362,219 |
| (366,501) | 1,603,556 | 15,483 | 1,252,538 |
| <u>(\$ 309,549)</u> | <u>\$ 1,908,823</u> | <u>\$ 15,483</u> | <u>\$1,614,757</u> |

CITY OF HOUGHTON, MICHIGAN
NOTES TO FINANCIAL STATEMENTS
Year ended June 30, 2005

NOTE A - DESCRIPTION OF CITY OPERATIONS

The City was organized on June 8, 1970 and covers an area of approximately 1,869 acres. The City operates under a Council-Manager form of government with an elected council of seven members.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Houghton conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Houghton:

REPORTING ENTITY

The City of Houghton is governed by an elected seven-member council. The accompanying financial statements present the government and its component units, entities for which the government is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the government's operations. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the government (see discussion below for description).

BLENDED COMPONENT UNITS

A blended component unit is a legally separate entity from the City, but is so intertwined with the City that it is, in substance, the same as the City. It is reported as part of the City and blended into the appropriate fund types and account groups.

BUILDING AUTHORITY

The Building Authority of the City of Houghton is governed by a five member board appointed by the City Council. It was created to facilitate the issuance of bonded debt. This unit has no day-to-day operations and the debt issued by it is reflected in the government-wide statement of net assets under governmental activities and component units.

DISCRETELY PRESENTED COMPONENT UNITS

The following component units are reported within the "component units" column in the financial statements. A discretely presented component unit is an entity that is legally separate from the City, but for which the City is financially accountable, or its relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete.

The Downtown Development Authority, the Tax Increment Finance Authority and the Brownfield Redevelopment Authority are considered to be component units of the City and their financial statements are presented discretely with the City's. The Downtown Development Authority, the Tax Increment Finance Authority and the Brownfield Redevelopment Authority are governed by the same board. The board consists of nine members which include the City Manager and 8 others that are appointed by the Mayor subject to approval by the City Council.

The Houghton Housing Commission is a component unit of the City of Houghton. It is governed by a five member board appointed by the City Manager. It is audited separately.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)DISCRETELY PRESENTED COMPONENT UNITS (CONTINUED)

Financial information for the Houghton Housing Commission as of December 31, 2004, the last year that audited financial information is available, is as follows:

| | |
|---|---------------------------|
| Assets: | |
| Current assets | \$ 290,050 |
| Net fixed assets | <u>1,622,117</u> |
| Total Assets | <u>\$1,912,167</u> |
| Liabilities: | |
| Current liabilities | \$ 40,185 |
| Other | <u>1,614</u> |
| Total Liabilities | <u>\$ 41,799</u> |
| Net Assets: | |
| Investment in capital assets, net of related debt | <u>\$1,622,117</u> |
| Unrestricted net assets | <u>248,251</u> |
| Total Net Assets | <u><u>\$1,870,368</u></u> |
| Operating Revenues: | |
| Tenant revenue | \$ 183,266 |
| Program grants - subsidies | 160,229 |
| Other | <u>1,889</u> |
| Total Operating Revenues | <u>\$ 345,384</u> |
| Operating Expenses: | |
| General operations | \$ 300,884 |
| Depreciation | <u>143,452</u> |
| Total Operating Expenses | <u>\$ 444,336</u> |
| Operating Income (Loss) | <u>(\$ 98,952)</u> |
| Other Income (Expenses) | <u>\$ 1,532</u> |
| Change in Net Assets | <u>(\$ 97,420)</u> |
| Net Assets, beginning of period | <u>1,967,788</u> |
| Net Assets, end of period | <u><u>\$1,870,368</u></u> |

Complete financial information can be obtained by contacting Heritage Manor, Houghton, Michigan 49931.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

JOINTLY GOVERNED ORGANIZATIONS

On January 24, 1964, Portage Lake Water and Sewer Authority entered into a contract with the City of Houghton and the City of Hancock. The contract calls for the acquisition, improvements, enlargements, extension, operation and maintenance of a sewage disposal system. The cost of operations and improvements are divided between the City of Houghton and the City of Hancock on a pro rata basis based upon the percentage use of the plant by each city as measured by the material flow from the pumping station. The Authority is not considered a component unit of either city. The City's investment in the Authority is included in the Sewage Disposal System Fund's financial statements using the cost method of accounting.

Audited financial information for the joint venture as of June 30, 2005:

| | |
|-----------------------|---|
| Total assets | <u>\$ 24,922,926</u> |
| Liabilities: | |
| Current liabilities | \$ 547,021 |
| Long-term liabilities | <u>8,166,574</u> |
| | \$ 8,713,595 |
| Total equity | <u>16,209,331</u> |
| | <u>\$ 24,922,926</u> |
| Total revenues | \$ 1,297,848 |
| Total expenditures | <u>1,297,848</u> |
| | INCREASE IN FUND EQUITY FROM OPERATIONS \$ - |
| Equity contributions | <u>422,253</u> |
| | TOTAL INCREASE IN FUND EQUITY <u>\$ 422,253</u> |

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS (CONTINUED)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements.

FUND ACCOUNTING

The accounts of the City are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into seven generic fund types and three broad fund categories as follows:

GOVERNMENTAL FUNDS

General Fund

The General Fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds

Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trusts, or major capital projects) that are legally restricted to expenditures for specified purposes.

General Obligation Debt Retirement Fund

Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Projects Funds

Capital Projects Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by Proprietary Funds, Special Assessment Funds, and Trust Funds).

PROPRIETARY FUNDS

Enterprise Funds

Enterprise Funds are used to account for operations (a) that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

FUND ACCOUNTING (CONTINUED)

PROPRIETARY FUNDS (CONTINUED)

Internal Service Funds

Internal Service Funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the City, or to other governments, on a cost-reimbursement basis.

Fiduciary Funds

Fiduciary Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments, and/or other funds. These include the Tax Collection Fund, an Agency Fund; the Employee Retirement Fund, a Pension Fund; and the Employee Benefit Fund, a Non-expendable Trust Fund. The Employee Retirement Fund and Employee Benefit Fund are accounted for in essentially the same manner as proprietary funds since capital maintenance is critical. Trust Funds are accounted for in essentially the same manner as governmental funds. Agency Funds are custodial in nature (assets equal liabilities) and don't involve measurement of results of operations.

MEASUREMENT FOCUS/BASIS OF ACCOUNTING

Measurement focus refers to what is being measured; basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned, including unbilled water and sewer services which are accrued, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The Governmental Fund Types and Expendable Trust Funds use a current financial resources measurement focus and are accounted for using the modified accrual basis of accounting. Agency Funds also use the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual; i.e., when they become both measurable and available. "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. The City considers property taxes as available if they are collected within 60 days after year end. A one-year availability period is used for recognition of all other Governmental Fund revenues. Expenditures are recorded when the related fund liability is incurred. The revenues susceptible to accrual are property taxes, franchise fees, licenses, charges for service, interest income, and inter-governmental revenues.

Sales taxes collected and held by the state at year end on behalf of the government are also recognized as revenue. All other Governmental Fund Type revenues are recognized when received.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS/BASIS OF ACCOUNTING (CONTINUED)

Property taxes include amounts levied against all real and public utility property and tangible personal property which is used in businesses located in the City. Taxes are levied on July 1 on the taxable value listed as of the prior January 1. The due date for taxes to be paid without penalty for the 2005 summer levy is July 31, 2005, the winter levy due date is December 1, 2005. All real property taxes remaining unpaid by March 1 are bought by Houghton County. Property tax revenue is recognized as of July 1, when the taxes are levied. In the fund financial statements, any taxes collected before that date are recorded as deferred revenue. Property taxes receivable over 60 days are required to be recorded as deferred revenue in accordance with generally accepted accounting principles for local governments.

Taxable values are established by the City Assessor. A revaluation of all property is required annually. The City's tax rate applicable to 2004 was \$14.00 on each \$1,000.00 of tax valuation.

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY

BANK DEPOSITS AND INVESTMENTS

Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired.

Investments are reported at fair market value. Short-term investments are reported at cost, which approximates fair value. Securities traded on national exchanges are valued at the last reported sale price. Investments that do not have an established market are reported at estimated fair value. All investments comply with Michigan Compiled Laws, Section 129.91.

RECEIVABLES AND PAYABLES

In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds". Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances". All trade and property tax receivables are shown without an allowance for uncollectible amounts.

INVENTORIES AND PREPAID ITEMS

Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

RESTRICTED ASSETS

The revenue bonds of the enterprise funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ASSETS, LIABILITIES, AND NET ASSETS OR EQUITY (CONTINUED)

CAPITAL ASSETS

Capital assets, which include property, plant, equipment and infrastructure assets (e.g. roads, bridges, sidewalks, and similar items) are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of the donation. Interest has not been capitalized on fixed assets.

Property, plant, equipment and infrastructure is depreciated using the straight-line method over the following useful lives:

| | |
|-----------------------|-------------|
| Buildings | 40-60 years |
| Building improvements | 15-30 years |
| Water and sewer lines | 10-50 years |
| Roads | 50 years |
| Other infrastructure | 50 years |
| Vehicles | 3-5 years |
| Office equipment | 5-7 years |
| Computer equipment | 3-7 years |

LONG-TERM OBLIGATIONS

In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

FUND EQUITY

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

ACCUMULATED EMPLOYEE SICK LEAVE AND VACATION

City employees earn vacation leave, which generally cannot be accumulated. Unused sick leave may be accumulated to a specific maximum amount. In accordance with generally accepted accounting principles an accrual for compensated absences is reflected in the fiduciary fund types financial statements. The amount of current year compensated absences for the City is budgeted annually as an expense in the Employee Benefit Fund. The liability is split between the current and the long-term portion. The current portion is recorded in the Employee Benefit Fund. The long-term portion is recorded in the Government-Wide Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the City of Houghton to deposit and invest in the accounts of Federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation, repurchase agreements; bankers' acceptance of United States banks; commercial paper rated by two standard rating agencies within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan. The investment policy as required by Act 196 PA 1997 has been adopted by the Council. The City's deposits and investments are in accordance with statutory authority.

At June 30, 2005, the City of Houghton's deposits and investments were reported in the basic financial statements in the following categories:

| | <u>Governmental Activities</u> | <u>Business- Type Activities</u> | <u>Fiduciary Funds</u> | <u>Total Primary Government</u> | <u>Component Units</u> |
|---------------------------|------------------------------------|--|----------------------------|---|----------------------------|
| Cash and cash equivalents | \$ 976,581 | \$ 285,861 | \$ 250,464 | \$1,512,906 | \$ 435,844 |
| Investments | 372,414 | - | 4,403,594 | 4,776,008 | - |
| Restricted assets | - | 363,629 | - | 363,629 | - |
| Total | <u>\$ 1,348,995</u> | <u>\$ 649,490</u> | <u>\$4,654,058</u> | <u>\$6,652,543</u> | <u>\$ 435,844</u> |

The Governmental Accounting Standards Board (GASB) Statement No. 3 risk disclosure for deposits at year end are as follows:

| | <u>Bank Balances</u> | | |
|---------------------------|-------------------------------|---------------------------|--------------------|
| <u>Deposits</u> | <u>Primary Government</u> | <u>Component Unit</u> | <u>Total</u> |
| Insured or collateralized | \$1,547,477 | \$ 438,396 | \$1,985,873 |
| Uninsured | 145,734 | - | 145,734 |
| Total Deposits | <u>\$1,693,211</u> | <u>\$ 438,396</u> | <u>\$2,131,607</u> |

At year end, the carrying amount of cash was \$1,439,553 and \$435,844 for the primary government and component units respectively. Deposits totalling \$91,753 are included with Restricted Assets and deposits of \$73,353 are classified as Retirement Account-Cash. Included with Cash was petty cash of \$864. The total carrying amount of deposits in these accounts is \$1,603,795 and \$435,844 for the primary government and component units respectively.

In accordance with GASB Statement No. 3, investments are classified into categories of credit risk as follows:

- Category 1: Insured or collateralized with securities held by the City or its agent in the City's name.
- Category 2: Collateralized with securities held by the pledging financial institution's trust department or agent in the City's name.
- Category 3: Uncollateralized (includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City's name).

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE C - DEPOSITS AND INVESTMENTS (CONTINUED)

Investment Type

| | (1) | (2) | (3) | <u>Reported Amount</u> | <u>Fair Value</u> |
|-------------------------------|--------------------|-------------|-------------|----------------------------|-----------------------|
| Risk-Categorized | | | | | |
| Cash equivalents | \$ 183,142 | \$ - | \$ - | \$ 183,142 | \$ 183,142 |
| Bonds and secure mortgages | <u>945,989</u> | <u>-</u> | <u>-</u> | <u>945,989</u> | <u>945,989</u> |
| | <u>\$1,129,131</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$1,129,131</u> | <u>\$1,129,131</u> |
| Nonrisk-Categorized | | | | | |
| Mutual funds | | | | \$3,746,682 | \$3,746,682 |
| Annuities | | | | <u>172,071</u> | <u>172,071</u> |
| | | | | <u>\$3,918,753</u> | <u>\$3,918,753</u> |
| Total investments | | | | <u>\$5,047,884</u> | <u>\$5,047,884</u> |

Investments totalling \$271,876 are included with Restricted Assets. Bonds and secured mortgages, mutual funds, and annuities are held in the Employee Retirement Fund.

The City of Houghton's General Fund and Water Supply Fund have investments in several money market mutual funds and bonds and secured mortgages. The nature of the mutual funds and annuities does not allow for risk categorization, which is in accordance with GASB Statement No. 3.

NOTE D - RECEIVABLES

Receivables as of June 30, 2005 are as follows:

| | <u>General Fund</u> | <u>Special Revenue Funds</u> | <u>Capital Projects Fund</u> | <u>Water Fund</u> | <u>Sewer Fund</u> |
|-----------------------------|-------------------------|--------------------------------------|--------------------------------------|-----------------------|-----------------------|
| Taxes receivable | \$ 45,614 | \$ - | \$ - | \$ - | \$ - |
| Accounts | 71,353 | - | - | 88,783 | 194,847 |
| Long-term loans | 90,402 | 333,637 | - | - | - |
| Intergovernmental Grants | <u>104,280</u> | <u>127,448</u> | <u>-</u> | <u>-</u> | <u>2,101</u> |
| | - | - | 56,518 | - | - |
| Total receivables | <u>\$311,649</u> | <u>\$461,085</u> | <u>\$ 56,518</u> | <u>\$ 88,783</u> | <u>\$196,948</u> |

| | <u>Parking Fund</u> | <u>Transit Fund</u> | <u>Fiduciary Fund</u> | <u>Total</u> |
|-----------------------------|-------------------------|-------------------------|---------------------------|--------------------|
| Taxes receivable | \$ - | \$ - | \$ - | \$ 45,614 |
| Accounts | 556 | 5,614 | - | 361,153 |
| Long-term loans | - | - | 151,916 | 575,955 |
| Intergovernmental Grants | <u>-</u> | <u>11,482</u> | <u>-</u> | <u>245,311</u> |
| | - | - | - | 56,518 |
| Total receivables | <u>\$ 556</u> | <u>\$ 17,096</u> | <u>\$ 151,916</u> | <u>\$1,284,551</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - RECEIVABLES (CONTINUED)

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, the various components of deferred revenue are as follows:

| | <u>Unavailable</u> | <u>Unearned</u> |
|----------------------------|--------------------|-----------------|
| Delinquent property taxes | \$ 16,376 | \$ - |
| Long-term loans receivable | 402,339 | - |
| Total | <u>\$ 418,715</u> | <u>\$ -</u> |

LONG-TERM LOANS RECEIVABLE

The long-term loan receivable in the General Fund is the amount due on an installment sale (\$200,000 original balance, \$90,402 remaining) of a building to U.P. Engineering, Inc.. The agreement calls for 240 monthly payments of \$1,432.90, which includes interest at a rate of 6% per annum.

Long-term loans receivable in the Revolving Fund, totalling \$311,937, consist of loans made to various commercial organizations from funds provided by Urban Development Action Grants and Community Development Block Grants. Interest rates vary from 2% to 4% per annum. Loans are payable over periods ranging from ten to twenty years.

Included in these long-term loans receivable is a secured loan of \$173,000 to the U.P. Hotel Group, Inc.. Payments on this loan have been limited to interest payments only, until a balloon payment due in August 2011. Currently fifteen months of interest remain unpaid. There is also an unsecured loan to the U.P. Hotel Group, Inc. of \$21,700. Repayments on this loan were scheduled to begin in August of 2002 but no payments have been received to date.

These long-term receivables are offset by a like amount recorded as deferred revenue in each of these funds in the fund financial statements.

TRANSIT FUND OPERATING GRANT UNDERPAYMENT (OVERPAYMENT)

a. The city received underpayments (overpayments) of State operating assistance in the current and prior years which have been recorded as a due from (to) State amount on the balance sheet at June 30, 2005. The amount receivable (owed) and the applicable years are as follows:

| <u>For Fiscal Year</u> | <u>Due from (to) State</u> |
|--------------------------------|------------------------------------|
| 1999-00 | (\$ 5,340) |
| 2000-01 | (8,885) |
| 2001-02 | (5,581) |
| 2002-03 | (3,494) |
| 2003-04 | (15,407) |
| 2004-05 | (9,174) |
| | <u>(\$ 47,881)</u> |

These amounts will be treated as adjustments to future State Assistance Payments.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE D - RECEIVABLES (CONTINUED)

TRANSIT FUND OPERATING GRANT UNDERPAYMENT (OVERPAYMENT) (CONTINUED)

b. The City has Federal Section 5311 funds receivable and payable from current and prior years operations which have been included as net accounts receivable on the balance sheet at June 30, 2005. The amounts and the applicable years are as follows:

| <u>For Fiscal Year</u> | <u>Amount Receivable Payable</u> |
|--------------------------------|--|
| 1998-99 | (\$ 167) |
| 1999-00 | (3,070) |
| 2000-01 | (72) |
| 2001-02 | 2,418 |
| 2002-03 | 3,103 |
| 2003-04 | (1,911) |
| 2004-05 | <u>11,181</u> |
| | <u>\$ 11,482</u> |

c. The amount of the 2003-04 State operating assistance receivable (payable) and Federal Section 5311 assistance receivable (payable) above was computed as follows:

| | <u>State Operating Assistance</u> | <u>Federal Section 5311 Funds</u> |
|--------------------------------------|---|---|
| Maximum allowable per computation | \$ 105,270 | \$ 33,967 |
| 2004-05 receipts | <u>114,444</u> | <u>22,786</u> |
| Amount receivable | <u>(\$ 9,174)</u> | <u>\$ 11,181</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2005 was as follows:

| | <u>Balance</u> <u>July 1</u> | <u>Addition</u> |
|---|---------------------------------|---------------------|
| Governmental activities: | | |
| Capital assets not being depreciated - land | \$ 529,196 | \$ 42,364 |
| Capital assets being depreciated: | | |
| Buildings | \$ 1,857,282 | \$ - |
| Improvements | 3,543,116 | - |
| Equipment | 3,268,444 | 306,771 |
| Infrastructure | <u>3,240,315</u> | <u>286,768</u> |
| Total capital assets being depreciated | <u>\$11,909,157</u> | <u>\$ 593,539</u> |
| Less accumulated depreciation for: | | |
| Buildings | (\$ 496,058) | (\$ 40,736) |
| Improvements | (1,792,882) | (108,087) |
| Equipment | (2,067,111) | (244,325) |
| Infrastructure | <u>(1,234,733)</u> | <u>(90,732)</u> |
| Total accumulated depreciation | <u>(\$ 5,590,784)</u> | <u>(\$ 483,880)</u> |
| Total capital assets, being depreciated, net | <u>\$ 6,318,373</u> | <u>\$ 109,659</u> |
| Governmental activities capital assets, net | <u>\$ 6,847,569</u> | <u>\$ 152,023</u> |
| Business-type activities: | | |
| Capital assets not being depreciated - PLWSA | \$ 941,313 | \$ - |
| Capital assets being depreciated: | | |
| Buildings | \$ 254,777 | \$ - |
| Improvements | 29,335 | 6,723 |
| Equipment | 1,193,404 | 39,015 |
| Infrastructure | <u>18,918,813</u> | <u>16,161</u> |
| Total capital assets being depreciated | <u>\$20,396,329</u> | <u>\$ 61,899</u> |
| Less accumulated depreciation for: | | |
| Buildings | (\$ 85,421) | (\$ 6,647) |
| Improvements | (367) | (734) |
| Equipment | (836,521) | (88,213) |
| Infrastructure | <u>(8,278,439)</u> | <u>(371,309)</u> |
| Total accumulated depreciation | <u>(\$ 9,200,748)</u> | <u>(\$ 466,903)</u> |
| Total capital assets being depreciated, net | <u>\$11,195,581</u> | <u>(\$ 405,004)</u> |
| Business-type activities capital assets, net | <u>\$12,136,894</u> | <u>(\$ 405,004)</u> |
| Component unit activities: | | |
| Capital assets not being depreciated - land | \$ 52,111 | \$ - |
| Capital assets being depreciated: | | |
| Buildings | \$ 537,033 | \$ 12,592 |
| Infrastructure | <u>3,556,709</u> | <u>389,543</u> |
| Total capital assets being depreciated | <u>\$ 4,093,742</u> | <u>\$ 402,135</u> |
| Less accumulated depreciation for: | | |
| Buildings | (\$ 109,805) | (\$ 10,867) |
| Infrastructure | <u>(567,347)</u> | <u>(75,031)</u> |
| Total accumulated depreciation | <u>(\$ 677,152)</u> | <u>(\$ 85,898)</u> |
| Total capital assets being depreciated, net | <u>\$ 3,416,590</u> | <u>\$ 316,237</u> |
| Component unit activities capital assets, net | <u>\$ 3,468,701</u> | <u>\$ 316,237</u> |

| <u>Retirements</u> | <u>Balance June 30,</u> |
|---------------------|-----------------------------|
| \$ - | \$ 571,560 |
| \$ - | \$ 1,857,282 |
| - | 3,543,116 |
| (107,423) | 3,467,792 |
| - | 3,527,083 |
| <u>(\$ 107,423)</u> | <u>\$12,395,273</u> |
| \$ - | (\$ 536,794) |
| - | (1,900,969) |
| 81,809 | (2,229,627) |
| - | (1,325,465) |
| <u>\$ 81,809</u> | <u>(\$ 5,992,855)</u> |
| <u>(\$ 25,614)</u> | <u>\$ 6,402,418</u> |
| <u>(\$ 25,614)</u> | <u>\$ 6,973,978</u> |
| \$ - | \$ 941,313 |
| \$ - | \$ 254,777 |
| - | 36,058 |
| - | 1,232,419 |
| - | 18,934,974 |
| <u>\$ -</u> | <u>\$20,458,228</u> |
| \$ - | (\$ 92,068) |
| - | (1,101) |
| - | (924,734) |
| - | (8,649,748) |
| <u>\$ -</u> | <u>(\$ 9,667,651)</u> |
| <u>\$ -</u> | <u>\$10,790,577</u> |
| <u>\$ -</u> | <u>\$11,731,890</u> |
| \$ - | \$ 52,111 |
| \$ - | \$ 549,625 |
| - | 3,946,252 |
| <u>\$ -</u> | <u>\$ 4,495,877</u> |
| \$ - | (\$ 120,672) |
| - | (642,378) |
| <u>\$ -</u> | <u>(\$ 763,050)</u> |
| <u>\$ -</u> | <u>\$ 3,732,827</u> |
| <u>\$ -</u> | <u>\$ 3,784,938</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE E - CAPITAL ASSETS (CONTINUED)

Depreciation expense was charged as direct expense to programs of the primary government as follows:

| | |
|---|-------------------|
| Governmental activities: | |
| General government and administration | \$ 35,577 |
| Public works | 288,042 |
| Public safety | 41,573 |
| Recreation and parks | <u>118,688</u> |
| Total depreciation expense - Governmental activities | <u>\$ 483,880</u> |
| Business-type activities: | |
| Water | \$ 184,631 |
| Sewer | 100,142 |
| Parking | 108,544 |
| Transit | <u>73,585</u> |
| Total depreciation expense - Business-type activities | <u>\$ 466,902</u> |

NOTE F - INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2005 are as follows:

| <u>Fund</u> | <u>Interfund Receivable</u> | <u>Fund</u> | <u>Interfund Payable</u> |
|--------------------|---------------------------------|--------------------|------------------------------|
| General | \$ 77,428 | Public Improvement | \$ 7,428 |
| | | Parking System | 3,000 |
| | | Water | <u>67,000</u> |
| SUBTOTAL | <u>\$ 77,428</u> | SUBTOTAL | <u>\$ 77,428</u> |
| Employee Benefits | \$ 2,412 | General | \$ 2,412 |
| Transit | \$ 19,000 | General | \$ 19,000 |
| Major Street | \$ 12,408 | Local Street | \$ 12,408 |
| Revolving | \$ 61,363 | Public Improvement | \$ 61,363 |
| Public Improvement | \$ 79,974 | Equipment | \$ 29,180 |
| | | Parking System | <u>50,794</u> |
| SUBTOTAL | <u>\$ 79,974</u> | SUBTOTAL | <u>\$ 79,974</u> |
| Sewage Disposal | \$ 90,678 | Equipment | \$ 83,131 |
| | | Water | <u>7,547</u> |
| SUBTOTAL | <u>\$ 90,678</u> | SUBTOTAL | <u>\$ 90,678</u> |
| Equipment | \$ 422,810 | General | \$ 86,183 |
| | | Water | 53,347 |
| | | Major Street | 41,777 |
| | | Local Street | 104,655 |
| | | Parking System | <u>136,848</u> |
| SUBTOTAL | <u>\$ 422,810</u> | SUBTOTAL | <u>\$ 422,810</u> |
| TOTALS | <u>\$ 766,073</u> | TOTALS | <u>\$ 766,073</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE F - INTERFUND RECEIVABLES AND PAYABLES (CONTINUED)

Short-term amounts owed between funds are classified as "Due to/from other funds".

The amounts of receivables and payables between primary government and component units at June 30, 2005 are as follows:

| | <u>Receivable from Primary Government</u> | <u>Payable to Primary Government</u> | | <u>Receivable from Component Unit</u> | <u>Payable to Component Unit</u> |
|--------------------------------------|---|--|----------------|---|--|
| Downtown Development Authority - | | | | | |
| General | \$ 395 | \$ 5,209 | Tax Collection | \$ - | \$ 395 |
| | | | General | 4,000 | - |
| | | | Equipment | <u>1,209</u> | <u>-</u> |
| | <u>\$ 395</u> | <u>\$ 5,209</u> | | <u>\$ 5,209</u> | <u>\$ 395</u> |
| Tax Increment Finance Authority - | | | | | |
| General | \$ 88,769 | \$ 77,522 | Tax Collection | \$ 62,173 | \$ - |
| | | | Public | | |
| | | | Improvement | - | 88,769 |
| | | | Equipment | <u>15,349</u> | <u>-</u> |
| | <u>\$ 88,769</u> | <u>\$ 77,522</u> | | <u>\$ 77,522</u> | <u>\$ 88,769</u> |
| Brownfield Redevelopment Authority - | | | | | |
| General | \$ 15,483 | \$ - | General | \$ - | \$ 15,483 |
| TOTALS | <u>\$ 104,647</u> | <u>\$ 82,731</u> | TOTALS | <u>\$ 82,731</u> | <u>\$ 104,647</u> |

NOTE G - LONG-TERM DEBT

The government issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the government. County contractual agreements and installment purchase agreements are also general obligations of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

| | <u>Governmental</u> | <u>Business- Type</u> |
|---|---------------------|---------------------------|
| At June 30, 2005 bonds payable consisted of the following individual issues: | | |
| Water supply and sewage disposal system revenue bonds dated March 9, 1978, mature annually on February 1, 2006 through February 1, 2017, with interest at 5.00% per annum. | \$ - | \$ 99,000 |
| Water supply and sewage disposal system revenue bonds dated March 6, 1980, mature annually on May 1, 2006 through May 1, 2019, with interest at 5.00% per annum. | - | 175,000 |
| Water supply and sewage disposal system bonds dated December 1, 1996, mature annually on September 1, 2005 through September 1, 2017, with interest at 5.4525% per annum. | - | 355,000 |
| Water supply and sewage disposal system Junior Lien bonds dated October 18, 1995, mature annually on September 1, 2005 through September 1, 2035, with interest at 4.50% per annum. | - | 4,067,000 |
| Water supply and sewage disposal system Junior Lien bonds dated December 1, 1996, mature annually on September 1, 2005 through September 1, 2036, with interest at 4.50% per annum. | - | 164,000 |
| Sewage disposal limited tax general obligation bonds dated April 1, 1997, mature annually on October 1, 2005 through October 1, 2012. | - | 235,000 |
| Building Authority limited tax general obligation bonds dated September 1, 1997, mature annually on October 1, 2005 through October 1, 2017. | 535,000 | - |
| Total bonds payable | <u>\$ 535,000</u> | <u>\$5,095,000</u> |

INSTALLMENT NOTE

| | | |
|---|------------------|-------------|
| 1999 Rural Development Service Installment note dated April 21, 1999, matures annually on March 1, 2006 through March 1, 2014 with interest at 4.75% per annum. | <u>\$ 99,000</u> | <u>\$ -</u> |
|---|------------------|-------------|

INSTALLMENT PURCHASE CONTRACT

| | | |
|---|------------------|-------------|
| Ford Ranger Pickup loan with monthly payments of \$392.55 including interest through October, 2008 with interest at 3.0% per annum, financed through Wells Fargo Bank, a financial institution. | <u>\$ 14,914</u> | <u>\$ -</u> |
|---|------------------|-------------|

ECONOMIC DEVELOPMENT GRANT LOAN

| | | |
|---|-------------------|-------------|
| Michigan CDBG Economic Development Grant Loan | <u>\$ 166,261</u> | <u>\$ -</u> |
|---|-------------------|-------------|

The long-term portion of employee compensated absences, totalling \$180,669, and the Keyman Life Insurance retirement annuity, totalling \$50,072 are both paid through the Employee Benefits fund, and reported as governmental activity in the Government-Wide Statement of Net Assets.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

Annual Debt Service Requirements

The annual debt service requirements to maturity, including principal and interest, for long-term debt as of June 30, 2005, are as follows:

| Year Ended June 30, | <u>Governmental Activities</u> | | <u>Business-Type Activities</u> | |
|------------------------|--------------------------------|-------------------|---------------------------------|--------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> |
| 2006 | \$118,997 | \$ 35,651 | \$ 93,000 | \$ 234,878 |
| 2007 | 90,872 | 30,828 | 106,000 | 230,087 |
| 2008 | 96,583 | 26,742 | 115,000 | 224,771 |
| 2009 | 96,111 | 22,598 | 122,000 | 218,972 |
| 2010 | 99,408 | 17,940 | 129,000 | 212,869 |
| 2011 | 80,120 | 13,823 | 135,000 | 206,361 |
| 2012 | 51,854 | 10,976 | 148,000 | 199,289 |
| 2013 | 33,229 | 9,080 | 154,000 | 191,686 |
| 2014 | 53,000 | 6,943 | 126,000 | 184,774 |
| 2015 | 40,000 | 4,125 | 135,000 | 178,444 |
| 2016 | 15,000 | 2,613 | 139,000 | 171,736 |
| 2017 | 20,000 | 1,650 | 149,000 | 164,588 |
| 2018 | 20,000 | 550 | 145,000 | 157,053 |
| 2019 | - | - | 121,000 | 150,701 |
| 2020-2038 | - | - | 3,278,000 | 1,436,961 |
| | <u>\$815,174</u> | <u>\$ 183,519</u> | <u>\$5,095,000</u> | <u>\$4,163,170</u> |

The individual long-term debt and other general long-term obligations of the City of Houghton and the changes therein, may be summarized as follows:

| | <u>Balance 06-30-04</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance 06-30-05</u> |
|---|-----------------------------|------------------|-------------------|-----------------------------|
| <u>ENTERPRISE FUNDS</u> | | | | |
| <u>REVENUE BONDS</u> | | | | |
| Water Supply and Sewage Disposal System Bonds (1978) | \$ 105,000 | \$ - | \$ 6,000 | \$ 99,000 |
| Water Supply and Sewage Disposal System Bonds (1980) | 184,000 | - | 9,000 | 175,000 |
| Water Supply and Sewage System Bonds (1996) | 365,000 | - | 10,000 | 355,000 |
| Junior Lien Water Supply and Sewage System Bonds (1995) | 4,089,000 | - | 22,000 | 4,067,000 |
| Junior Lien Water Supply and Sewage System Bonds (1997) | 166,000 | - | 2,000 | 164,000 |
| Sewage System Limited Obligation Revenue Bonds (1997) | 255,000 | - | 20,000 | 235,000 |
| | <u>\$5,164,000</u> | <u>\$ -</u> | <u>\$ 69,000</u> | <u>\$5,095,000</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

| | <u>Balance</u> <u>06-30-04</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>06-30-05</u> |
|---|-----------------------------------|------------------|-------------------|-----------------------------------|
| <u>INTERNAL SERVICE FUND</u> | | | | |
| <u>INSTALLMENT PURCHASE CONTRACT</u> | | | | |
| Equipment | \$ 19,101 | \$ - | \$ 4,187 | \$ 14,914 |
| <u>LIMITED TAX INVESTMENT NOTE</u> | | | | |
| 1999 Rural Development Service Loan | <u>108,000</u> | <u>-</u> | <u>9,000</u> | <u>99,000</u> |
| | <u>\$ 127,101</u> | <u>\$ -</u> | <u>\$ 13,187</u> | <u>\$ 113,914</u> |
| <u>LONG-TERM DEBT GROUP OF ACCOUNTS</u> | | | | |
| <u>GENERAL OBLIGATION BONDS</u> | | | | |
| Building Authority Bonds (1997) | \$ 615,000 | \$ - | \$ 80,000 | \$ 535,000 |
| <u>ECONOMIC DEVELOPMENT</u> | | | | |
| <u>GRANT LOAN</u> | | | | |
| Michigan CDBG Economic Development Grant MSC 910052-EDIG (1992) including accrued interest | 186,339 | - | 20,078 | 166,261 |
| <u>PROMISSORY NOTE</u> | | | | |
| Retirement annuity | <u>56,197</u> | <u>-</u> | <u>6,125</u> | <u>50,072</u> |
| | \$ 857,536 | \$ - | \$ 106,203 | \$ 751,333 |
| Accrued compensated absences payable | 321,427 | 6,728 | - | 328,155 |
| Less current portion, included in Employee Benefit Fund | <u>170,066</u> | <u>-</u> | <u>22,580</u> | <u>147,486</u> |
| | <u>\$1,008,897</u> | <u>\$ 6,728</u> | <u>\$ 83,623</u> | <u>\$ 932,002</u> |
| <u>TAX INCREMENT FINANCE AUTHORITY</u> | | | | |
| <u>TAX INCREMENT REVENUE BONDS</u> | | | | |
| Shopko Stores Project | \$ 6,282 | \$ - | \$ 6,282 | \$ - |
| Walmart Project | 214,387 | - | 59,860 | 154,527 |
| <u>LIMITED TAX DEVELOPMENT BONDS</u> | | | | |
| 1994 TIFA Projects | 135,000 | - | 65,000 | 70,000 |
| 1998 Refunding Bonds | 920,000 | - | 10,000 | 910,000 |
| 1999 Tax Increment Bond | <u>465,000</u> | <u>-</u> | <u>15,000</u> | <u>450,000</u> |
| | <u>\$1,740,669</u> | <u>\$ -</u> | <u>\$ 156,142</u> | <u>\$1,584,527</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

| | <u>Balance</u> <u>06-30-04</u> | <u>Additions</u> | <u>Reductions</u> | <u>Balance</u> <u>06-30-05</u> |
|---|-----------------------------------|------------------|-------------------|-----------------------------------|
| <u>DOWNTOWN DEVELOPMENT</u> <u>AUTHORITY</u> | | | | |
| LIMITED TAX DEVELOPMENT BONDS | | | | |
| 1994 DDA Projects - | | | | |
| including accrued interest | \$ 868,030 | \$ 59,460 | \$ - | \$ 927,490 |
| 1996 Building Authority Bonds | <u>95,000</u> | <u>-</u> | <u>10,000</u> | <u>85,000</u> |
| | <u>\$ 963,030</u> | <u>\$ 59,460</u> | <u>\$ 10,000</u> | <u>\$1,012,490</u> |

BROWNFIELD REDEVELOPMENT
AUTHORITY

| | | | | |
|-----------------------------|--------------------|------------------|-------------------|--------------------|
| TAX INCREMENT REVENUE BONDS | | | | |
| Former High School Project | \$ 378,120 | \$ - | \$ 38,372 | \$ 339,748 |
| | <u>\$9,381,817</u> | <u>\$ 66,188</u> | <u>\$ 370,324</u> | <u>\$9,077,681</u> |

1995 WATER AND SEWAGE SYSTEM JUNIOR LIEN REVENUE BONDS

Water and Sewage System Junior Lien Revenue Bonds (\$4,233,000 authorized, \$4,067,000 outstanding) dated October 18, 1995, mature annually on September 1, 2005 through September 1, 2035, with interest at 4.50% per annum.

| <u>Due year ended June 30,</u> | <u>September 1</u> | | <u>March 1</u> | |
|--------------------------------|--------------------|-----------------|-----------------|--------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Interest</u> | <u>Total</u> |
| 2006 | \$ 35,000 | \$ 91,508 | \$ 90,720 | \$ 217,228 |
| 2007 | 48,000 | 90,720 | 89,640 | 228,360 |
| 2008 | 50,000 | 89,640 | 88,515 | 228,155 |
| 2009 | 52,000 | 88,515 | 87,345 | 227,860 |
| 2010 | 57,000 | 87,345 | 86,062 | 230,407 |
| 2011 | 57,000 | 86,062 | 84,780 | 227,842 |
| 2012 | 60,000 | 84,780 | 83,430 | 228,210 |
| 2013 | 65,000 | 83,430 | 81,967 | 230,397 |
| 2014 | 70,000 | 81,968 | 80,392 | 232,360 |
| 2015 | 73,000 | 80,392 | 78,750 | 232,142 |
| 2016 | 75,000 | 78,750 | 77,063 | 230,813 |
| 2017 | 80,000 | 77,063 | 75,262 | 232,325 |
| 2018 | 85,000 | 75,262 | 73,350 | 233,612 |
| 2019 | 100,000 | 73,350 | 71,100 | 244,450 |
| 2020 | 105,000 | 71,100 | 68,738 | 244,838 |
| 2021 | 127,000 | 68,738 | 65,880 | 261,618 |
| 2022 | 135,000 | 65,880 | 62,842 | 263,722 |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1995 WATER AND SEWAGE SYSTEM JUNIOR LIEN REVENUE BONDS (CONTINUED)

| <u>Due year ended June 30,</u> | <u>September 1</u> | | <u>March 1</u> | <u>Total</u> |
|--------------------------------|--------------------|--------------------|--------------------|--------------------|
| | <u>Principal</u> | <u>Interest</u> | <u>Interest</u> | |
| 2023 | 142,000 | 62,842 | 59,648 | 264,490 |
| 2024 | 149,000 | 59,648 | 56,295 | 264,943 |
| 2025 | 157,000 | 56,295 | 52,762 | 266,057 |
| 2026 | 164,000 | 52,762 | 49,073 | 265,835 |
| 2027 | 172,000 | 49,073 | 45,202 | 266,275 |
| 2028 | 182,000 | 45,202 | 41,108 | 268,310 |
| 2029 | 190,000 | 41,108 | 36,832 | 267,940 |
| 2030 | 200,000 | 36,832 | 32,333 | 269,165 |
| 2031 | 210,000 | 32,333 | 27,607 | 269,940 |
| 2032 | 222,000 | 27,607 | 22,613 | 272,220 |
| 2033 | 232,000 | 22,613 | 17,392 | 272,005 |
| 2034 | 245,000 | 17,392 | 11,880 | 274,272 |
| 2035 | 258,000 | 11,880 | 6,075 | 275,955 |
| 2036 | 270,000 | 6,075 | - | 276,075 |
| | <u>\$4,067,000</u> | <u>\$1,896,165</u> | <u>\$1,804,656</u> | <u>\$7,767,821</u> |

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS OF 1978

Water Supply and Sewage Disposal System Revenue Bonds (denomination \$1,000 each, \$188,000 originally issued, \$99,000 outstanding) dated March 9, 1978, mature annually on February 1, 2006 through February 1, 2017, with interest at 5.00% per annum.

| <u>Due year ended June 30,</u> | <u>August 1</u> | <u>February 1</u> | | <u>Total</u> |
|--------------------------------|------------------|-------------------|------------------|------------------|
| | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | |
| 2006 | \$ 2,475 | \$ 6,000 | \$ 2,475 | \$ 10,950 |
| 2007 | 2,325 | 7,000 | 2,325 | 11,650 |
| 2008 | 2,150 | 7,000 | 2,150 | 11,300 |
| 2009 | 1,975 | 7,000 | 1,975 | 10,950 |
| 2010 | 1,800 | 8,000 | 1,800 | 11,600 |
| 2011 | 1,600 | 8,000 | 1,600 | 11,200 |
| 2012 | 1,400 | 8,000 | 1,400 | 10,800 |
| 2013 | 1,200 | 9,000 | 1,200 | 11,400 |
| 2014 | 975 | 9,000 | 975 | 10,950 |
| 2015 | 750 | 10,000 | 750 | 11,500 |
| 2016 | 500 | 10,000 | 500 | 11,000 |
| 2017 | 250 | 10,000 | 250 | 10,500 |
| | <u>\$ 17,400</u> | <u>\$ 99,000</u> | <u>\$ 17,400</u> | <u>\$133,800</u> |

Bonds are subject to redemption prior to maturity, at the option of the City, in inverse numerical order, on any interest payment dates, at par and accrued interest to date of redemption, upon thirty days written notice to the registered bond holder.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS, SERIES II OF 1980

Water Supply and Sewage Disposal System Revenue Bonds (denomination \$1,000 each, \$300,000 authorized, \$175,000 outstanding) dated March 6, 1980, mature annually on May 1, 2006 through May 1, 2019, with interest at 5.00% per annum.

| <u>Due year ended June 30,</u> | <u>November 1</u> | | <u>May 1</u> | |
|--------------------------------|-------------------|------------------|------------------|------------------|
| | <u>Interest</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
| 2006 | \$ 4,375 | \$ 9,000 | \$ 4,375 | \$ 17,750 |
| 2007 | 4,150 | 9,000 | 4,150 | 17,300 |
| 2008 | 3,925 | 10,000 | 3,925 | 17,850 |
| 2009 | 3,675 | 10,000 | 3,675 | 17,350 |
| 2010 | 3,425 | 11,000 | 3,425 | 17,850 |
| 2011 | 3,150 | 12,000 | 3,150 | 18,300 |
| 2012 | 2,850 | 12,000 | 2,850 | 17,700 |
| 2013 | 2,550 | 12,000 | 2,550 | 17,100 |
| 2014 | 2,250 | 13,000 | 2,250 | 17,500 |
| 2015 | 1,925 | 14,000 | 1,925 | 17,850 |
| 2016 | 1,575 | 15,000 | 1,575 | 18,150 |
| 2017 | 1,200 | 15,000 | 1,200 | 17,400 |
| 2018 | 825 | 16,000 | 825 | 17,650 |
| 2019 | 425 | 17,000 | 425 | 17,850 |
| | <u>\$ 36,300</u> | <u>\$175,000</u> | <u>\$ 36,300</u> | <u>\$247,600</u> |

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1997 WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM JUNIOR LIEN REVENUE BOND

Water Supply and Sewage Disposal System Junior Lien Revenue Bond (\$180,000 originally issued and \$164,000 outstanding) dated December 1, 1996, mature annually on September 1, 2005 through September 1, 2036, with interest at 4.50% per annum.

| Due year ended June 30, | September 1 Principal | September 1 Interest | March 1 Interest | Total |
|-------------------------------|--------------------------|-------------------------|---------------------|------------------|
| 2006 | \$ 3,000 | \$ 3,720 | \$ 3,593 | \$ 10,313 |
| 2007 | 2,000 | 3,652 | 3,548 | 9,200 |
| 2008 | 3,000 | 3,607 | 3,491 | 10,098 |
| 2009 | 3,000 | 3,529 | 3,414 | 9,943 |
| 2010 | 3,000 | 3,471 | 3,347 | 9,818 |
| 2011 | 3,000 | 3,403 | 3,280 | 9,683 |
| 2012 | 3,000 | 3,335 | 3,222 | 9,557 |
| 2013 | 3,000 | 3,258 | 3,146 | 9,404 |
| 2014 | 4,000 | 3,199 | 3,057 | 10,256 |
| 2015 | 3,000 | 3,108 | 2,990 | 9,098 |
| 2016 | 4,000 | 3,040 | 2,909 | 9,949 |
| 2017 | 4,000 | 2,941 | 2,812 | 9,753 |
| 2018 | 4,000 | 2,858 | 2,723 | 9,581 |
| 2019 | 4,000 | 2,768 | 2,633 | 9,401 |
| 2020 | 5,000 | 2,677 | 2,529 | 10,206 |
| 2021 | 4,000 | 2,556 | 2,433 | 8,989 |
| 2022 | 5,000 | 2,473 | 2,321 | 9,794 |
| 2023 | 5,000 | 2,359 | 2,209 | 9,568 |
| 2024 | 5,000 | 2,246 | 2,103 | 9,349 |
| 2025 | 6,000 | 2,127 | 1,963 | 10,090 |
| 2026 | 6,000 | 1,996 | 1,830 | 9,826 |
| 2027 | 6,000 | 1,860 | 1,696 | 9,556 |
| 2028 | 6,000 | 1,724 | 1,566 | 9,290 |
| 2029 | 7,000 | 1,584 | 1,405 | 9,989 |
| 2030 | 7,000 | 1,429 | 1,250 | 9,679 |
| 2031 | 7,000 | 1,270 | 1,094 | 9,364 |
| 2032 | 8,000 | 1,112 | 917 | 10,029 |
| 2033 | 8,000 | 928 | 736 | 9,664 |
| 2034 | 8,000 | 749 | 557 | 9,306 |
| 2035 | 9,000 | 567 | 357 | 9,924 |
| 2036 | 9,000 | 363 | 157 | 9,520 |
| 2037 | 7,000 | 158 | - | 7,158 |
| | <u>\$164,000</u> | <u>\$ 74,067</u> | <u>\$ 69,288</u> | <u>\$307,355</u> |

Principal installments of this bond are subject to prepayment prior to maturity, in inverse chronological order, at the City's option, on any interest payment date on or after September 1, 1997, at par and accrued interest to the date fixed for prepayment.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

WATER SUPPLY AND SEWAGE DISPOSAL SYSTEM REVENUE BONDS OF 1996

Water Supply and Sewage Disposal System Bonds (denomination \$1,000 each, \$400,000 originally issued, and \$355,000 outstanding), dated December 1, 1996, mature annually on September 1, 2005 through September 1, 2017, with interest at 5.4525% per annum.

| Due year ended June 30, | September 1 Principal | September 1 Interest | March 1 Interest | Total |
|-------------------------------|--------------------------|-------------------------|---------------------|------------------|
| 2006 | \$ 15,000 | \$ 9,876 | \$ 9,513 | \$ 34,389 |
| 2007 | 15,000 | 9,513 | 9,141 | 33,654 |
| 2008 | 20,000 | 9,141 | 8,636 | 37,777 |
| 2009 | 20,000 | 8,636 | 8,121 | 36,757 |
| 2010 | 20,000 | 8,121 | 7,596 | 35,717 |
| 2011 | 25,000 | 7,596 | 6,928 | 39,524 |
| 2012 | 30,000 | 6,928 | 6,110 | 43,038 |
| 2013 | 30,000 | 6,110 | 5,277 | 41,387 |
| 2014 | 30,000 | 5,278 | 4,430 | 39,708 |
| 2015 | 35,000 | 4,430 | 3,424 | 42,854 |
| 2016 | 35,000 | 3,424 | 2,400 | 40,824 |
| 2017 | 40,000 | 2,400 | 1,210 | 43,610 |
| 2018 | 40,000 | 1,210 | - | 41,210 |
| | <u>\$355,000</u> | <u>\$ 82,663</u> | <u>\$ 72,786</u> | <u>\$510,449</u> |

Bonds maturing through 2006 are not subject to redemption prior to maturity. Bonds maturing 2007 through 2017 are subject to redemption prior to maturity at the option of the City on any interest payment date on or after September 1, 2006.

1997 LIMITED TAX GENERAL OBLIGATION BONDS

Limited Tax General Obligation Bonds (\$360,000 originally issued and \$235,000 outstanding), dated April 1, 1997, mature annually on October 1, 2005 through October 1, 2012.

| Year ended June 30, | Interest Rate - % Per Annum | October 1 Principal | October 1 Interest | April 1 Interest | Total |
|------------------------|-----------------------------------|------------------------|-----------------------|---------------------|------------------|
| 2006 | 5.30 | \$ 25,000 | \$ 6,455 | \$ 5,793 | \$ 37,248 |
| 2007 | 5.30 | 25,000 | 5,793 | 5,130 | 35,923 |
| 2008 | 5.35 | 25,000 | 5,130 | 4,461 | 34,591 |
| 2009 | 5.40 | 30,000 | 4,461 | 3,651 | 38,112 |
| 2010 | 5.50 | 30,000 | 3,651 | 2,826 | 36,477 |
| 2011 | 5.60 | 30,000 | 2,826 | 1,986 | 34,812 |
| 2012 | 5.65 | 35,000 | 1,986 | 998 | 37,984 |
| 2013 | 5.70 | 35,000 | 998 | - | 35,998 |
| | | <u>\$235,000</u> | <u>\$ 31,300</u> | <u>\$ 24,845</u> | <u>\$291,145</u> |

Bonds maturing in the years through 2008, shall be subject to redemption prior to maturity, at the option of the City, on any interest payment date on or after October 1, 2007, at par and accrued interest plus a premium as follows:

1% of par value on each bond called for redemption from October 1, 2007, but prior to October 1, 2008.

No premiums shall be paid on bonds called for redemption after October 1, 2008.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1997 BUILDING AUTHORITY AND BUILDING AUTHORITY REFUNDING BONDS

Limited Tax General Obligation Bonds (\$955,000 originally issued and \$535,000 outstanding), dated September 1, 1997, mature annually on October 1, 2005 through October 1, 2017.

| Due year ended June 30, | Interest Rate - % Per Annum | October 1 | | April 1 | Total |
|-------------------------------|-----------------------------------|-------------------|------------------|------------------|-------------------|
| | | Principal | Interest | Interest | |
| 2006 | 5.05 | \$ 85,000 | \$ 13,997 | \$ 11,851 | \$ 110,848 |
| 2007 | 5.00 | 55,000 | 11,851 | 10,476 | 77,327 |
| 2008 | 5.10 | 60,000 | 10,476 | 8,946 | 79,422 |
| 2009 | 5.15 | 60,000 | 8,946 | 7,401 | 76,347 |
| 2010 | 5.20 | 65,000 | 7,401 | 5,711 | 78,112 |
| 2011 | 5.30 | 45,000 | 5,711 | 4,519 | 55,230 |
| 2012 | 5.35 | 15,000 | 4,519 | 4,118 | 23,637 |
| 2013 | 5.40 | 15,000 | 4,118 | 3,713 | 22,831 |
| 2014 | 5.50 | 40,000 | 3,713 | 2,612 | 46,325 |
| 2015 | 5.50 | 40,000 | 2,612 | 1,513 | 44,125 |
| 2016 | 5.50 | 15,000 | 1,513 | 1,100 | 17,613 |
| 2017 | 5.50 | 20,000 | 1,100 | 550 | 21,650 |
| 2018 | 5.50 | 20,000 | 550 | - | 20,550 |
| | | <u>\$ 535,000</u> | <u>\$ 76,507</u> | <u>\$ 62,510</u> | <u>\$ 674,017</u> |

Bonds of this issue maturing through 2007, are not subject to redemption prior to maturity.

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing on or after October 1, 2008, are subject to redemption prior to maturity, at the option of the Authority, in such order of maturity as the Authority shall determine and within any maturity by lot, on any interest payment date on or after October 1, 2007, at par plus accrued interest to the date fixed for redemption.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1996 BUILDING AUTHORITY BONDS

Building Authority Bonds (\$150,000 originally issued and \$85,000 outstanding) dated October 1, 1996, mature annually on October 1, 2005 through October 1, 2011.

| Due year ended <u>June 30,</u> | Interest Rate - % <u>Per Annum</u> | <u>October 1</u> | | <u>April 1</u> | <u>Total</u> |
|--------------------------------------|--|------------------|------------------|-----------------|-------------------|
| | | <u>Principal</u> | <u>Interest</u> | <u>Interest</u> | |
| 2006 | 5.30 | \$ 10,000 | \$ 2,387 | \$ 2,123 | \$ 14,510 |
| 2007 | 5.40 | 10,000 | 2,123 | 1,852 | 13,975 |
| 2008 | 5.50 | 10,000 | 1,852 | 1,578 | 13,430 |
| 2009 | 5.60 | 10,000 | 1,578 | 1,297 | 12,875 |
| 2010 | 5.70 | 15,000 | 1,297 | 870 | 17,167 |
| 2011 | 5.75 | 15,000 | 870 | 439 | 16,309 |
| 2012 | 5.85 | 15,000 | 439 | - | 15,439 |
| | | <u>\$ 85,000</u> | <u>\$ 10,546</u> | <u>\$ 8,159</u> | <u>\$ 103,705</u> |

Bonds maturing through 2006 are not subject to redemption prior to maturity. Bonds maturing in the year 2007 and thereafter shall be subject to redemption prior to maturity at the option of the Building Authority on any interest payment date on or after October 1, 2006 at par and accrued interest to the date of redemption.

DOWNTOWN DEVELOPMENT BOND (LIMITED TAX GENERAL OBLIGATION)

Downtown Development Authority Bonds (\$461,604 originally issued and outstanding) dated December 21, 1994, mature annually on May 1, 2006, through May 1, 2014.

| Due year ended <u>June 30,</u> | Interest Rate - % <u>Per Annum</u> | <u>May 1</u> | | <u>Total</u> |
|--------------------------------------|--|------------------|------------------|--------------------|
| | | <u>Principal</u> | <u>Interest</u> | |
| 2006 | 6.45 | \$ 48,615 | \$ 51,385 | \$ 100,000 |
| 2007 | 6.55 | 45,082 | 54,918 | 100,000 |
| 2008 | 6.65 | 43,811 | 61,189 | 105,000 |
| 2009 | 6.75 | 38,543 | 61,457 | 100,000 |
| 2010 | 6.80 | 35,801 | 64,199 | 100,000 |
| 2011 | 6.80 | 68,644 | 136,356 | 205,000 |
| 2012 | 6.85 | 63,667 | 141,333 | 205,000 |
| 2013 | 6.85 | 60,972 | 149,028 | 210,000 |
| 2014 | 6.90 | 56,469 | 153,531 | 210,000 |
| | | <u>\$461,604</u> | <u>\$873,396</u> | <u>\$1,335,000</u> |

The Bond is not subject to redemption prior to maturity.

MICHIGAN CDBG ECONOMIC DEVELOPMENT GRANT LOAN

On April 8, 1992 the City of Houghton accepted Michigan CDBG Economic Development Grant MSC 910052-EDIG (\$200,000 received and \$166,261 including accrued interest outstanding as of June 30, 2005) for the Midwest Loan Services, Inc. Commercial Rehabilitation Project. The City must remit two-thirds of the monthly rent payment from Midwest Loan Services, Inc. to the State of Michigan until the entire grant amount, plus 3% annual interest, has been repaid.

NOTE G - LONG-TERM DEBT (CONTINUED)

CITY OF HOUGHTON TAX INCREMENT FINANCE AUTHORITY

TAX INCREMENT REVENUE BOND - WALMART PROJECT

City of Houghton Tax Increment Finance Authority Tax Increment Revenue Bond (\$512,188 originally issued, \$154,527 outstanding) dated June 23, 1993 matures annually on February 15, 2006 through February 15, 2014, with interest at the rate of 6.50% per annum.

The annual installment amount is equal to the greater of eighty percent of the Developer Tax Increment Revenues due to be collected by the Authority during the previous calendar year, or the principal shown on the following schedule of minimum annual installments plus accrued interest:

| <u>Due year ended June 30,</u> | <u>February 15, Principal</u> |
|--------------------------------|-----------------------------------|
| 2006 | \$ 15,000 |
| 2007 | 15,000 |
| 2008 | 15,000 |
| 2009 | 20,000 |
| 2010 | 20,000 |
| 2011 | 20,000 |
| 2012 | 20,000 |
| 2013 | 25,000 |
| 2014 | <u>4,527</u> |
| | <u>\$154,527</u> |

Annual installments shall be applied first to accrued interest and then principal until the outstanding balance is paid in full.

This bond is subject to prepayment in whole or in part prior to maturity at the option of the Authority on any date at par plus accrued interest to the date of redemption.

This Bond is subject to prepayment in whole or in part prior to maturity at the option of the bondholder on a date two years from notice to the Authority that the bondholder reasonably demonstrates that principal of and interest on this Bond can be paid in full within two years from bondholder Tax Increment Revenues to be collected by the Authority during the period of time commencing on the date of said notice and ending on the redemption date.

NOTE G - LONG-TERM DEBT (CONTINUED)

CITY OF HOUGHTON TAX INCREMENT FINANCE AUTHORITY

1994 LIMITED TAX DEVELOPMENT BOND

Tax Increment Finance Authority of the City of Houghton 1997 Limited Tax Development Bond (\$1,410,000 originally issued, \$70,000 outstanding) dated December 12, 1994 matures November 1, 2005.

| Due Year ended <u>June 30,</u> | Interest Rate - % <u>Per Annum</u> | November 1 | | <u>Total</u> |
|--------------------------------------|--|------------------|-----------------|------------------|
| | | <u>Principal</u> | <u>Interest</u> | |
| 2006 | 6.30 | <u>\$ 70,000</u> | <u>\$ 2,205</u> | <u>\$ 72,205</u> |

Bonds maturing through 2004 are not subject to redemption prior to maturity. Bonds maturing in 2005 are subject to redemption prior to maturity at the option of the Authority in integral multiples of \$5,000, on any date on or after November 1, 2004 at par and accrued interest plus a premium as follows:

2% of par value on each bond called for redemption from November 1, 2004 through October 31, 2005.

1% of par value on each bond called for redemption on November 1, 2005.

CITY OF HOUGHTON TAX INCREMENT FINANCE AUTHORITY

1998 LIMITED TAX DEVELOPMENT REFUNDING BONDS

City of Houghton Tax Incremental Finance Authority Limited Tax Development Refunding Bonds (\$975,000 originally issued and \$910,000 outstanding) dated May 1, 1998 mature annually on November 1, 2005 through November 1, 2014.

| Due Year ended <u>June 30,</u> | Interest Rate - % <u>Per Annum</u> | November 1 | | May 1 | <u>Total</u> |
|--------------------------------------|--|-------------------|------------------|------------------|--------------------|
| | | <u>Principal</u> | <u>Interest</u> | <u>Interest</u> | |
| 2006 | 4.65 | \$ 10,000 | \$ 22,596 | \$ 22,364 | \$ 54,960 |
| 2007 | 4.65 | 80,000 | 22,364 | 20,503 | 122,867 |
| 2008 | 4.80 | 85,000 | 20,503 | 18,464 | 123,967 |
| 2009 | 4.80 | 90,000 | 18,464 | 16,304 | 124,768 |
| 2010 | 5.00 | 90,000 | 16,304 | 14,054 | 120,358 |
| 2011 | 5.00 | 100,000 | 14,054 | 11,553 | 125,607 |
| 2012 | 5.00 | 105,000 | 11,553 | 8,929 | 125,482 |
| 2013 | 5.05 | 110,000 | 8,929 | 6,151 | 125,080 |
| 2014 | 5.10 | 115,000 | 6,151 | 3,219 | 124,370 |
| 2015 | 5.15 | <u>125,000</u> | <u>3,219</u> | <u>-</u> | <u>128,219</u> |
| | | <u>\$ 910,000</u> | <u>\$144,137</u> | <u>\$121,541</u> | <u>\$1,175,678</u> |

Bonds of this issue are subject to redemption prior to maturity on any date on or after November 1, 2007, in whole or in part without any premium or penalty plus accrued interest thereon to the date fixed for redemption.

NOTE G - LONG-TERM DEBT (CONTINUED)

CITY OF HOUGHTON TAX INCREMENT FINANCE AUTHORITY

1999 LIMITED TAX GENERAL OBLIGATION BONDS

City of Houghton Tax Incremental Finance Authority Limited Tax General Obligation Bonds (\$500,000 originally issued, \$450,000 outstanding) dated October 1, 1999, mature annually on May 1, 2004 through May 1, 2019.

| <u>Year ended</u> <u>June 30,</u> | <u>Interest</u> <u>Rate - %</u> <u>Per Annum</u> | <u>November 1</u> <u>Interest</u> | <u>May 1</u> <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|--------------------------------------|--|--------------------------------------|----------------------------------|------------------|-------------------|
| 2006 | 5.00 | \$ 12,990 | \$ 15,000 | \$ 12,990 | \$ 40,980 |
| 2007 | 5.20 | 12,615 | 20,000 | 12,615 | 45,230 |
| 2008 | 5.30 | 12,095 | 20,000 | 12,095 | 44,190 |
| 2009 | 5.40 | 11,565 | 20,000 | 11,565 | 43,130 |
| 2010 | 5.50 | 11,025 | 25,000 | 11,025 | 47,050 |
| 2011 | 5.60 | 10,338 | 25,000 | 10,337 | 45,675 |
| 2012 | 5.70 | 9,638 | 30,000 | 9,637 | 49,275 |
| 2013 | 5.80 | 8,783 | 30,000 | 8,782 | 47,565 |
| 2014 | 5.90 | 7,913 | 35,000 | 7,912 | 50,825 |
| 2015 | 5.90 | 6,880 | 40,000 | 6,880 | 53,760 |
| 2016 | 6.00 | 5,700 | 40,000 | 5,700 | 51,400 |
| 2017 | 6.00 | 4,500 | 45,000 | 4,500 | 54,000 |
| 2018 | 6.00 | 3,150 | 50,000 | 3,150 | 56,300 |
| 2019 | 6.00 | 1,650 | 55,000 | 1,650 | 58,300 |
| | | <u>\$ 118,842</u> | <u>\$450,000</u> | <u>\$118,838</u> | <u>\$ 687,680</u> |

Bonds of this issue maturing on or before May 1, 2008, shall not be subject to redemption prior to maturity. Bonds or portions of bonds in multiples of \$5,000 of this issue maturing on or after May 1, 2009 shall be subject to redemption without a premium, at the option of the Authority, in such order as the Authority shall determine and within any maturity by lot, on any interest payment date on or after May 1, 2008, at par and accrued interest to the date fixed for redemption.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE G - LONG-TERM DEBT (CONTINUED)

1999 RURAL DEVELOPMENT SERVICE INSTALLMENT NOTE
(LIMITED TAX GENERAL OBLIGATION)

Installment note (\$145,000 originally issued and \$99,000 outstanding) dated April 21, 1999, mature annually on March 1, 2006 through March 1, 2014 with interest at 4.75% per annum.

| Due Year ended June 30, | September 1 Interest | Principal | March 1 Interest | Total |
|-------------------------------|-------------------------|------------------|---------------------|-------------------|
| 2006 | \$ 2,371 | \$ 9,000 | \$ 2,332 | \$ 13,703 |
| 2007 | 2,155 | 10,000 | 2,120 | 14,275 |
| 2008 | 1,916 | 10,000 | 1,890 | 13,806 |
| 2009 | 1,672 | 10,000 | 1,648 | 13,320 |
| 2010 | 1,437 | 11,000 | 1,413 | 13,850 |
| 2011 | 1,173 | 11,000 | 1,154 | 13,327 |
| 2012 | 910 | 12,000 | 898 | 13,808 |
| 2013 | 621 | 13,000 | 612 | 14,233 |
| 2014 | 311 | 13,000 | 306 | 13,617 |
| | <u>\$ 12,566</u> | <u>\$ 99,000</u> | <u>\$ 12,373</u> | <u>\$ 123,939</u> |

CITY OF HOUGHTON BROWNFIELD REDEVELOPMENT AUTHORITY

TAX INCREMENTAL REVENUE LOAN - FORMER HOUGHTON HIGH SCHOOL PROJECT

City of Houghton Brownfield Redevelopment Authority Tax Incremental Revenue Loan (\$425,000 original proceeds and \$339,748 outstanding principal) dated October 3, 1998, matures annually on October 3, 2005 through October 3, 2012 with interest at the rate of 2.25% per annum. The loan is financed through the Michigan Department of Environmental Quality.

| Due Year ended June 30, | October 3 Principal | Interest | Total |
|-------------------------------|------------------------|------------------|-------------------|
| 2006 | \$ 39,236 | \$ 7,644 | \$ 46,880 |
| 2007 | 40,118 | 6,762 | 46,880 |
| 2008 | 41,021 | 5,859 | 46,880 |
| 2009 | 41,944 | 4,936 | 46,880 |
| 2010 | 42,888 | 3,992 | 46,880 |
| 2011 | 43,853 | 3,027 | 46,880 |
| 2012 | 44,840 | 2,040 | 46,880 |
| 2013 | 45,848 | 1,032 | 46,880 |
| | <u>\$ 339,748</u> | <u>\$ 35,292</u> | <u>\$ 375,040</u> |

Interest did not accrue between October 3, 1998 and October 3, 2003.

NOTE H - SEGMENT INFORMATION

Generally accepted accounting principles require disclosure of segment information for certain individual Enterprise Funds. The City maintains four Enterprise Funds: the Water Supply Fund, the Sewage Disposal System Fund, the Parking System Fund, and the Transit Fund.

The Enterprise Funds account for operations that are financed and operated in a manner similar to private business enterprises. The intent of the City is that costs of providing the goods and services to the general public on a continuing basis will be financed or recovered through user charges. The City has four Enterprise Funds as follows:

Water Fund and Sewer Fund - to account for the provision of water and sewer services to the residents of the City. Activities of the funds include administration, operation and maintenance of the water and sewer system and billing and collection activities. The funds also account for the accumulation of resources for, and the payment of, long-term debt principal and interest for Water and Sewer debt. All costs are financed through charges made to utility customers with rates reviewed regularly and adjusted if necessary to ensure integrity of the fund.

Parking Fund - to account for operation of the City's parking decks, including administration, operation and maintenance. The majority of costs are financed through parking fees and fines.

Transit Fund - to account for operation of the City's transit service, including administration, operation and maintenance. Costs are financed through fees charged to users and State and Federal Grants.

NOTES TO FINANCIAL STATEMENTS (CONTINUED)

NOTE H - SEGMENT INFORMATION (CONTINUED)

Selected financial information for business segments of enterprise funds for the year ended June 30, 2005, is presented as follows:

| | <u>Water Supply Fund</u> | <u>Sewage Disposal System Fund</u> |
|--|----------------------------------|--|
| <u>CONDENSED STATEMENT OF NET ASSETS</u> | | |
| Assets: | | |
| Current assets | \$ 104,121 | \$ 446,996 |
| Interfund receivable | - | 90,678 |
| Capital assets | 6,030,037 | 3,160,783 |
| Other assets | <u>328,257</u> | <u>35,372</u> |
| Total assets | <u>\$6,462,415</u> | <u>\$3,733,829</u> |
| Liabilities: | | |
| Interfund payables | \$ 127,894 | \$ - |
| Other current liabilities | 146,309 | 56,672 |
| Noncurrent liabilities | <u>4,452,000</u> | <u>550,000</u> |
| Total liabilities | <u>\$4,726,203</u> | <u>\$ 606,672</u> |
| Net assets: | | |
| Invested in capital assets, net of related debt | \$1,525,037 | \$2,570,783 |
| Restricted for debt service | 261,251 | 25,560 |
| Unrestricted | <u>(50,076)</u> | <u>530,814</u> |
| Total net assets | <u>\$1,736,212</u> | <u>\$3,127,157</u> |
| <u>CONDENSED STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS</u> | | |
| Operating revenues | \$ 708,619 | \$1,542,764 |
| Depreciation expense | (184,631) | (100,142) |
| Other operating expenses | <u>(463,208)</u> | <u>(1,554,068)</u> |
| Operating income | \$ 60,780 | (\$ 111,446) |
| Nonoperating revenues (expenses): | | |
| Investment income (loss) | 10,818 | 4,965 |
| Operating grants | - | - |
| Interest expense | (204,617) | (33,006) |
| Service grants | - | - |
| Capital contributions | - | - |
| Transfers in (out) | <u>-</u> | <u>-</u> |
| Change in net assets | (\$ 133,019) | (\$ 139,487) |
| Beginning net assets | <u>1,869,231</u> | <u>3,266,644</u> |
| Ending net assets | <u>\$1,736,212</u> | <u>\$3,127,157</u> |
| <u>CONDENSED STATEMENT OF CASH FLOWS</u> | | |
| Net cash provided (used) by: | | |
| Operating activities | \$ 204,533 | \$ 35,456 |
| Noncapital financing activities | 86,408 | 25,297 |
| Capital and related financing activities | (317,203) | (92,410) |
| Investing activities | <u>10,818</u> | <u>4,965</u> |
| Net increase (decrease) | (\$ 15,444) | (\$ 26,692) |
| Beginning cash and cash equivalents | <u>30,782</u> | <u>276,740</u> |
| Ending cash and cash equivalents | <u>\$ 15,338</u> | <u>\$ 250,048</u> |

| <u>Parking System Fund</u> | <u>Transit Fund</u> | <u>Total</u> |
|------------------------------------|-------------------------|---------------------|
| \$ 5,708 | \$ 32,419 | \$ 589,244 |
| - | 19,000 | 109,678 |
| 2,228,262 | 312,808 | 11,731,890 |
| - | - | 363,629 |
| <u>\$2,233,970</u> | <u>\$ 364,227</u> | <u>\$12,794,441</u> |
| | | |
| \$ 190,642 | \$ - | \$ 318,536 |
| 10,119 | 64,543 | 277,643 |
| - | - | 5,002,000 |
| <u>\$ 200,761</u> | <u>\$ 64,543</u> | <u>\$ 5,598,179</u> |
| | | |
| \$2,228,262 | \$ 312,808 | \$ 6,636,890 |
| - | - | 286,811 |
| (195,053) | (13,124) | 272,561 |
| <u>\$2,033,209</u> | <u>\$ 299,684</u> | <u>\$ 7,196,262</u> |
| | | |
| \$ 112,064 | \$ 111,727 | \$ 2,475,174 |
| (108,544) | (73,585) | (466,902) |
| (203,042) | (345,698) | (2,566,016) |
| (\$ 199,522) | (\$ 307,556) | (\$ 557,744) |
| | | |
| 10 | 25 | 15,818 |
| - | 223,036 | 223,036 |
| - | (90) | (237,713) |
| - | (57,493) | (57,493) |
| - | 8,207 | 8,207 |
| <u>70,000</u> | <u>69,000</u> | <u>139,000</u> |
| (\$ 129,512) | (\$ 64,871) | (\$ 466,889) |
| <u>2,162,721</u> | <u>364,555</u> | <u>7,663,151</u> |
| <u>\$2,033,209</u> | <u>\$ 299,684</u> | <u>\$ 7,196,262</u> |
| | | |
| (\$ 85,702) | (\$ 244,146) | (\$ 89,859) |
| 83,118 | 227,843 | 422,666 |
| - | 1,653 | (407,960) |
| <u>10</u> | <u>25</u> | <u>15,818</u> |
| (\$ 2,574) | (\$ 14,625) | (\$ 59,335) |
| <u>7,726</u> | <u>29,948</u> | <u>345,196</u> |
| <u>\$ 5,152</u> | <u>\$ 15,323</u> | <u>\$ 285,861</u> |

NOTE H - SEGMENT INFORMATION (CONTINUED)

The balances of the restricted asset accounts in the Enterprise Funds are revenue bond reserves totalling \$363,629.

NOTE I - RISK MANAGEMENT

The City of Houghton is exposed to various risks of loss related to property loss, torts, errors and omissions and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City of Houghton has purchased commercial insurance for claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

NOTE J - PENSION AND POST-EMPLOYMENT BENEFITS OTHER THAN PENSIONS

The City provides pension benefits for all of its full-time employees through a money purchase plan. In a money purchase plan, benefits depend solely on amounts contributed to the plan plus investment earnings. Employees are eligible to participate from the date of employment. The agreement requires that the City contribute an amount equal to 15.054% of the employee's base salary each month. The City's contributions for each employee (and interest allocated to the employee's account) are fully vested after three years of continuous service. City contributions for, and interest forfeited by, employees who leave employment before the three years of service are used to reduce the City's current period contribution requirement.

The City's total payroll in fiscal year ending June 30, 2005 was \$1,590,270. The City's contributions were calculated using the base salary amount of \$1,176,458. The City made the required contribution of \$177,104.

Plan participants may borrow up to 50% of the amount vested in their plan. Loans must be paid back through payroll check deductions. The length of the loan can vary from one to five years and the interest rate is set by the Pension Board. Interest is currently set at 9.5%. Loans for up to twenty years can be made for the purchase of a new home or to refinance their current home mortgage. The interest rate on these loans is currently set at 7.75%.

NOTE K - DEFERRED COMPENSATION PLAN

The City offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all permanent City employees, permits them to defer until future years up to 33 1/3% of annual gross earnings not to exceed \$7,500. The deferred compensation is not available to employees until termination, retirement, death, or an unforeseeable emergency.

The City neither acts as trustee nor has any management involvement in the plan.

The plan does not meet the reporting criteria defined in NCGA Statement 1, paragraph 26 (3) (8), consequently its financial statements are not presented herein.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF HOUGHTON, MICHIGAN

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE

Year ended June 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | Variance With Final Budget Favorable (Unfavorable) |
|---|-------------------------|--------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes | \$ 851,500 | \$ 851,500 | \$ 943,560 | \$ 92,060 |
| Licenses and permits | 4,150 | 4,150 | 1,275 | (2,875) |
| State grants | 900,670 | 900,670 | 860,455 | (40,215) |
| Interest | 25,000 | 25,000 | 54,149 | 29,149 |
| Charges for services | 722,500 | 722,500 | 773,925 | 51,425 |
| Other revenues | 16,500 | 97,500 | 66,753 | (30,747) |
| TOTAL REVENUES | <u>\$2,520,320</u> | <u>\$2,601,320</u> | <u>\$ 2,700,117</u> | <u>\$ 98,797</u> |
| Expenditures: | | | | |
| General government | | | | |
| administration | \$ 414,400 | \$ 480,400 | \$ 575,296 | (\$ 94,896) |
| Public safety | 477,480 | 477,480 | 474,456 | 3,024 |
| Public works | 611,000 | 624,000 | 603,383 | 20,617 |
| Recreation and parks | 199,650 | 199,650 | 200,289 | (639) |
| Debt service | 25,200 | 25,200 | 25,386 | (186) |
| Other expenditures | 667,590 | 667,590 | 540,129 | 127,461 |
| TOTAL EXPENDITURES | <u>\$2,395,320</u> | <u>\$2,474,320</u> | <u>\$ 2,418,939</u> | <u>\$ 55,381</u> |
| EXCESS OF REVENUES (EXPENDITURES) | <u>\$ 125,000</u> | <u>\$ 127,000</u> | <u>\$ 281,178</u> | <u>\$ 154,178</u> |
| Other financing sources (uses) - | | | | |
| Operating transfers out | (\$ 125,000) | (\$ 165,000) | (\$ 218,275) | (\$ 53,275) |
| EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES) | \$ - | (\$ 38,000) | \$ 62,903 | \$ 100,903 |
| Fund balance, July 1 | <u>903,883</u> | <u>903,883</u> | <u>903,883</u> | - |
| FUND BALANCE, JUNE 30 | <u>\$ 903,883</u> | <u>\$ 865,883</u> | <u>\$ 966,786</u> | <u>\$ 100,903</u> |

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN
MAJOR STREET AND TRUNKLINE MAINTENANCE FUND
BUDGETARY COMPARISON SCHEDULE
Year ended June 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With Final Budget Favorable (Unfavorable)</u> |
|--|-------------------------|--------------------|--------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| State grants | \$ 375,000 | \$ 375,000 | \$ 390,475 | \$ 15,475 |
| Interest and rents | <u>1,000</u> | <u>1,000</u> | <u>1,735</u> | <u>735</u> |
| TOTAL REVENUES | <u>\$ 376,000</u> | <u>\$ 376,000</u> | <u>\$ 392,210</u> | <u>\$ 16,210</u> |
| Expenditures: | | | | |
| General government administration | \$ 25,700 | \$ 25,700 | \$ 16,268 | \$ 9,432 |
| Public works: | | | | |
| Construction | - | - | 55,285 | (55,285) |
| Routine maintenance | 26,150 | 26,150 | 32,103 | (5,953) |
| Traffic services | 3,400 | 3,400 | 2,306 | 1,094 |
| Snow and ice control | 268,500 | 268,500 | 246,746 | 21,754 |
| Roadway inspections | 22,800 | 22,800 | 14,241 | 8,559 |
| Other expenditures | <u>51,340</u> | <u>51,340</u> | <u>75,446</u> | <u>(24,106)</u> |
| TOTAL EXPENDITURES | <u>\$ 397,890</u> | <u>\$ 397,890</u> | <u>\$ 442,395</u> | <u>(\$ 44,505)</u> |
| EXCESS OF REVENUES (EXPENDITURES) NOT INCLUDING STATE TRUNKLINE MAINTENANCE | <u>(\$ 21,890)</u> | <u>(\$ 21,890)</u> | <u>(\$ 50,185)</u> | <u>(\$ 28,295)</u> |
| State trunkline maintenance - | | | | |
| Excess of revenues (expenditures) | <u>\$ 21,890</u> | <u>\$ 21,890</u> | <u>\$ 547</u> | <u>(\$ 21,343)</u> |
| Other financing sources (uses) - | | | | |
| Operating transfers in | <u>\$ -</u> | <u>\$ 25,000</u> | <u>\$ -</u> | <u>(\$ 25,000)</u> |
| EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES) | <u>\$ -</u> | <u>\$ 25,000</u> | <u>(\$ 49,638)</u> | <u>(\$ 74,638)</u> |
| Fund balance, July 1 | <u>161,393</u> | <u>161,393</u> | <u>161,393</u> | <u>-</u> |
| FUND BALANCE, JUNE 30 | <u>\$ 161,393</u> | <u>\$ 186,393</u> | <u>\$ 111,755</u> | <u>(\$ 74,638)</u> |

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN

LOCAL STREET FUND
BUDGETARY COMPARISON SCHEDULE

Year ended June 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With Final Budget Favorable (Unfavorable)</u> |
|---|-------------------------|--------------------|---------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Taxes | \$ 124,000 | \$ 124,000 | \$ 119,326 | (\$ 4,674) |
| State grants | 221,000 | 221,000 | 248,038 | 27,038 |
| Interest and rents | 1,000 | 1,000 | 809 | (191) |
| Other | - | - | 130 | 130 |
| TOTAL REVENUES | <u>\$ 346,000</u> | <u>\$ 346,000</u> | <u>\$ 368,303</u> | <u>\$ 22,303</u> |
| Expenditures: | | | | |
| General government administration | \$ 13,200 | \$ 13,200 | \$ 17,131 | (\$ 3,931) |
| Public works: | | | | |
| Construction | 6,500 | 96,500 | 90,119 | 6,381 |
| Routine maintenance | 44,000 | 44,000 | 62,905 | (18,905) |
| Traffic services | 3,500 | 3,500 | 4,920 | (1,420) |
| Snow and ice removal | 167,000 | 167,000 | 250,635 | (83,635) |
| Other expenditures | 111,800 | 111,800 | 77,600 | 34,200 |
| TOTAL EXPENDITURES | <u>\$ 346,000</u> | <u>\$ 436,000</u> | <u>\$ 503,310</u> | <u>(\$ 67,310)</u> |
| EXCESS OF REVENUES (EXPENDITURES) | <u>\$ -</u> | <u>(\$ 90,000)</u> | <u>(\$ 135,007)</u> | <u>(\$ 45,007)</u> |
| Other financing sources (uses) - Operating transfers in | <u>\$ -</u> | <u>\$ 100,000</u> | <u>\$ 92,000</u> | <u>(\$ 8,000)</u> |
| EXCESS OF REVENUES AND OTHER SOURCES (EXPENDITURES AND OTHER USES) | <u>\$ -</u> | <u>\$ 10,000</u> | <u>(\$ 43,007)</u> | <u>(\$ 53,007)</u> |
| Fund balance, July 1 | <u>43,424</u> | <u>43,424</u> | <u>43,424</u> | <u>-</u> |
| FUND BALANCE, JUNE 30 | <u>\$ 43,424</u> | <u>\$ 53,424</u> | <u>\$ 417</u> | <u>(\$ 53,007)</u> |

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN

REVOLVING FUND
BUDGETARY COMPARISON SCHEDULE

Year ended June 30, 2005

| | <u>Budgeted Amounts</u> | | <u>Actual</u> | <u>Variance With Final Budget Favorable (Unfavorable)</u> |
|----------------------|-------------------------|-------------------|----------------------|---|
| | <u>Original</u> | <u>Final</u> | | |
| Revenues: | | | | |
| Interest and rents | \$ - | \$ - | \$ 5,256 | \$ 5,256 |
| Other revenue - | | | | |
| Loan repayments | <u>6,400</u> | <u>6,400</u> | <u>6,316</u> | (<u>84</u>) |
| TOTAL REVENUES | <u>\$ 6,400</u> | <u>\$ 6,400</u> | <u>\$ 11,572</u> | <u>\$ 5,172</u> |
| Expenditures: | | | | |
| General government | | | | |
| administration | \$ 500 | \$ 500 | \$ 1,304 | (\$ 804) |
| Loans and | | | | |
| contingencies | <u>-</u> | <u>-</u> | <u>96,000</u> | (<u>96,000</u>) |
| TOTAL EXPENDITURES | <u>\$ 500</u> | <u>\$ 500</u> | <u>\$ 97,304</u> | (<u>\$ 96,804</u>) |
| EXCESS OF REVENUES | | | | |
| (EXPENDITURES) | <u>\$ 5,900</u> | <u>\$ 5,900</u> | (<u>\$ 85,732</u>) | (<u>\$ 91,632</u>) |
| Fund balance, July 1 | <u>252,562</u> | <u>252,562</u> | <u>252,562</u> | <u>-</u> |
| TOTAL FUND | | | | |
| BALANCE, JUNE 30 | <u>\$ 258,462</u> | <u>\$ 258,462</u> | <u>\$ 166,830</u> | (<u>\$ 91,632</u>) |

See accompanying note to budgetary comparison schedules.

CITY OF HOUGHTON, MICHIGAN

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION

Year ended June 30, 2005

BUDGETARY INFORMATION

A draft of the budget is prepared by the City Manager. The budget is then finalized during a series of budget work sessions with the City Council. When the budget is finalized, a public hearing is held and the Council adopts the budget legally. This usually occurs in June before the beginning of the fiscal year but the budget may be amended at any time throughout the year. The budget is prepared on a basis that is consistent with generally accepted accounting principles, thus no reconciliation between the budget basis and GAAP basis is necessary.

In the body of the financial statements, the City's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the City for these budgetary funds were adopted to the functional level.

During the year ended June 30, 2005, the City incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated as follows:

| <u>Fund</u> | <u>Budget Appropriation</u> | <u>Actual Expenditures</u> |
|--------------|---------------------------------|--------------------------------|
| Local Street | \$ 436,000 | \$ 503,310 |
| Major Street | 712,000 | 865,068 |
| Revolving | 500 | 97,304 |

ADDITIONAL FINANCIAL INFORMATION